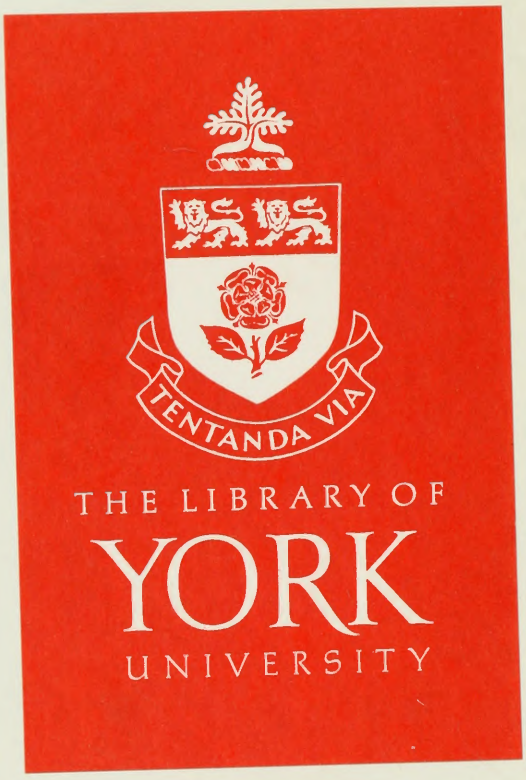

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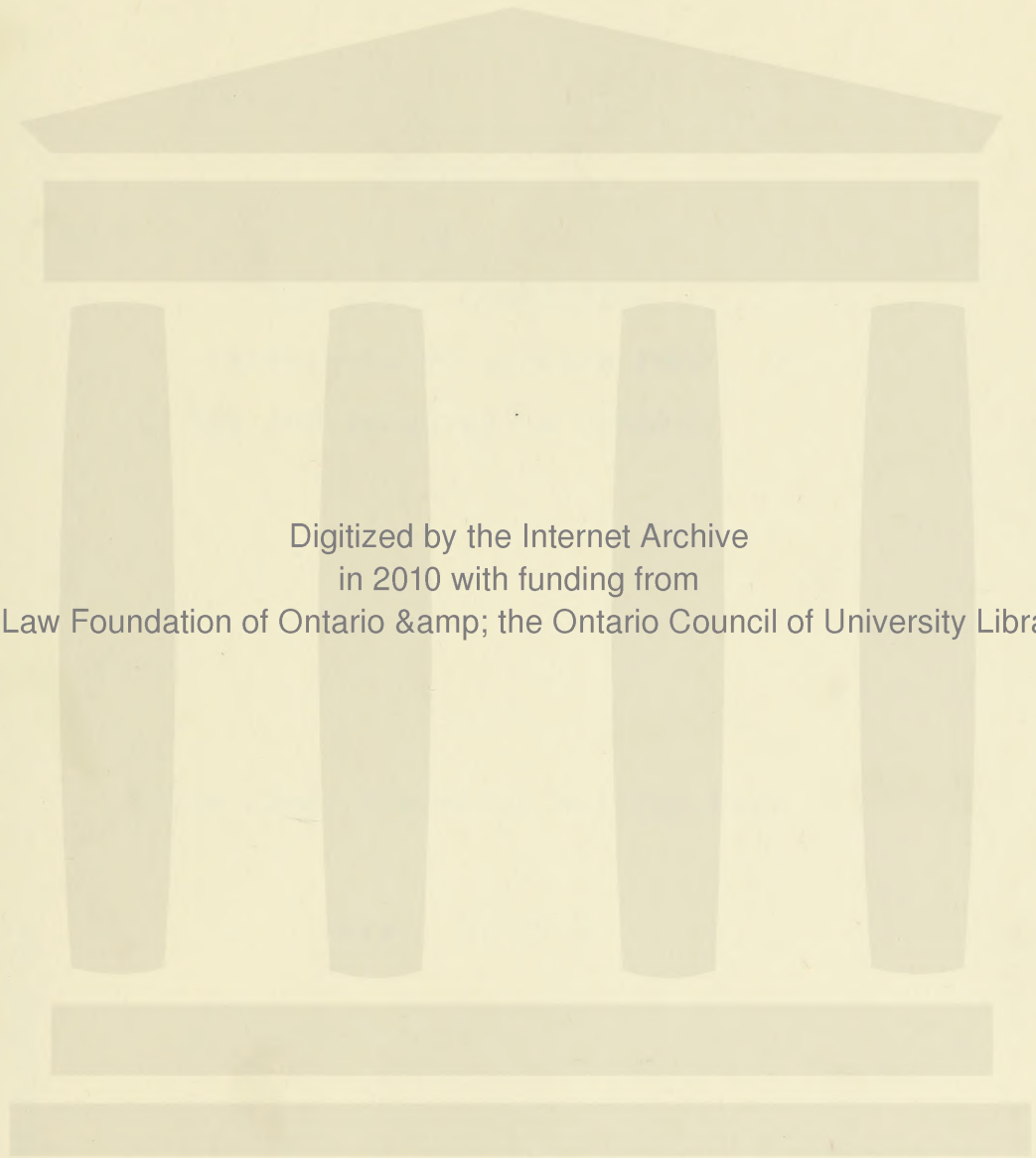

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REPORT

OF

THE ROYAL COMMISSION

APPOINTED TO INQUIRE INTO

THE EGG INDUSTRY IN ONTARIO

Judge James Frederick William Ross

April 5, 1972

COMMISSIONER	Judge James Frederick William Ross
COUNSEL	Frederick R. Hume, Q.C.
CONSULTANTS	Topecon Group Limited J. Harry Weijs Scott E. Brooks

TABLE OF CONTENTS

	Page
LETTER OF TRANSMITTAL	iv
ORDER-IN-COUNCIL	v
SUMMARY OF RECOMMENDATIONS	viii
CHAPTER I INTRODUCTION	1
CHAPTER II ORGANIZATION AND FUNCTIONS OF THE EGG INDUSTRY	5
CHAPTER III INCOMES OF EGG PRODUCERS	24
CHAPTER IV CAUSES OF PROBLEMS FACING EGG PRODUCERS	44
CHAPTER V CONCLUSIONS AND RECOMMENDATIONS	69

TO HIS HONOUR

THE LIEUTENANT GOVERNOR IN COUNCIL

May It Please Your Honour;

I, JAMES FREDERICK WILLIAM ROSS, having been appointed to a sole Commissioner under The Public Inquiries Act by Letters Patent dated the 19th day of September, 1971 to inquire into the Egg Industry in Ontario and to make recommendations with reference thereto as set forth in the said Commission.

BEG TO SUBMIT MY REPORT TO

YOUR HONOUR

DATED at Thunder Bay, this 5th day

of April, 1972.

COMMISSIONER

ORDER-IN-COUNCIL

(Great Seal of Ontario) W.R. MACDONALD

PROVINCE OF ONTARIO

ELIZABETH THE SECOND, by the Grace of God of the United Kingdom, Canada and Her other Realms and Territories Queen, Head of the Commonwealth, Defender of the Faith.

To:

His Honour James Frederick William Ross, District Court Judge of Thunder Bay, of our Province of Ontario,

GREETING:

WHEREAS in and by Chapter 379 of The Revised Statutes of Ontario, 1970, entitled "The Public Inquiries Act", it is enacted that whenever Our Lieutenant Governor in Council deems it expedient to cause inquiry to be made concerning any matter connected with or affecting the good government of Ontario or the conduct of any part of the public business thereof or of the administration of justice therein and such inquiry is not regulated by any special law, he may, by Commission appoint one or more persons to conduct such inquiry and may confer the power of summoning any person and requiring him to give evidence on oath and to produce such documents and things as the Commissioner deems requisite for the full investigation of the matters into which he or they are appointed to examine;

AND WHEREAS Our Lieutenant Governor in Council of Our Province of Ontario deems it expedient to cause inquiry to be made concerning the matters hereinafter mentioned;

NOW KNOW YE that We, having and reposing full trust and confidence in you the said Honour James Frederick William Ross, District Court Judge of Thunder Bay, of our Province of Ontario, DO HEREBY APPOINT you to be Our sole Commissioner and DO NAME you, the said Honour James Frederick William Ross to be the Chairman thereof, to inquire into the Egg Industry in Ontario and make recommendations with special reference to:

1. The marketing and distribution of shell and processed eggs.

2. The proposed plan for marketing eggs in Ontario including policies relating to quotas, negotiability and attachment to facilities, distribution through grading stations and pricing and pooling policies.

3. The relationship of the marketing of Ontario eggs to the proposed National Plan.

4. The influence of vertical integration on the development and growth of the industry in terms of increased production, processing and grading facilities, producer credit and producer income,

and to make,

(a) such recommendations in respect to the marketing of eggs as in the opinion of the Commissioner would be applicable to conditions in Ontario;

(b) such other recommendations as in his opinion will promote the stabilization of the marketing and distribution of eggs in Ontario and in concert with other provinces, the marketing of eggs in Canada; and

(c) recommendations on such other matters as may be deemed appropriate.

AND WE DO HEREBY CONFER on you, Our said Commissioner, the power to summon any person and require him to give evidence on oath and to produce such documents and things as you, Our said Commissioner, deem requisite for the full investigation of the matters into which you are appointed to examine;

AND WE DO HEREBY FURTHER ORDER that all Our departments, boards, commissions, agencies and committees shall assist you, Our said Commissioner, to the fullest extent and that, in order to carry out your duties and functions, you shall have the authority to engage such counsel, research and other staff and technical advisers as you deem proper, at the rate of remuneration and reimbursement to be approved by the Treasury Board of Our Province of Ontario;

TO HAVE, HOLD AND ENJOY the said Office and authority of Commissioner for and during the pleasure of Our Lieutenant Governor in Council for Our Province of Ontario;

IN TESTIMONY WHEREOF We have caused these Our Letters to be made Patent, and the Great Seal of Our Province of Ontario to be hereunto affixed.

Witness:

THE HONOURABLE WILLIAM ROSS MACDONALD, A Member of Our Privy Council for Canada, Upon whom has been conferred Our Canadian Forces Decoration, A Colonel in Our Canadian Armed Forces Supplementary Reserve and One of Our Counsel Learned in the Law, Doctor of Laws, LIEUTENANT GOVERNOR OF OUR PROVINCE OF ONTARIO

at Our City of Toronto in Our said Province, this nineteenth day of September in the year of Our Lord one thousand nine hundred and seventy-one and in the twentieth year of Our Reign.

BY COMMAND

John Yaremko
Provincial Secretary
and
Minister of Citizenship.

(1784) 41

SUMMARY OF RECOMMENDATIONS

Page		Supply Management
87	(1)	The Ontario Egg and Fowl Producers' Marketing Board should be provided with the necessary powers to administer a marketing program with sales quotas and this marketing program should be developed as soon as possible.
87	(2)	The marketing program should be instituted without a producer vote.
88	(3)	The Minister of Agriculture and Food in Ontario should initiate discussions with other provinces and with the National Farm Products Marketing Council to reach agreement on the allocation of quotas between provinces, quota transfer and interprovincial trade practices, and changes in provincial marketing legislation; these may be required to ensure that marketing boards in all provinces operate with consistent objectives.
90,91	(4)	Initial quotas should be allocated according to a combination of recent egg sales of producers and the capacity of facilities. An appeal system should be organized to deal with unfair treatment in quota allocation. To the extent that facilities are used as a basis for quota allocation, this allocation should be based on facilities actually in operation as of September 19, 1971, the date of my Order-in-Council. Persons with fewer than 500 hens should be excluded from the sales quota program.
96,97	(5)	The Ontario Department of Agriculture and Food, in consultation with representatives of agricultural organizations and marketing boards, should develop a number of guidelines to facilitate the introduction of marketing plans. These guidelines should include definitions of a 'producer', 'owner', 'operator' and 'owner-operator' for purposes of quota allocation.
97	(6)	The responsibility for the initial allocation and transfer of quota should be assumed by the Farm Products Marketing Board or a completely independent agency set up for this purpose.
91-98	(7)	Serious consideration should be given to adopting methods of quota transfer in which revenues from quota sales accrue to the Egg Board rather than to producers, or alternatively, methods in which the quotas are allocated administratively with no quota sales at all.

(Summary of Recommendations cont'd)

Effects of Supply Management on Pullet Growers

100 (8) Contracts for the purchase of started pullets should be made compulsory and binding on both buyer and seller. Producers should be required to contract for their pullet supplies at least six months in advance of delivery.

100,101 (9) If egg producers begin to raise their own pullets because they are not allowed to expand in commercial egg production, existing pullet producers should be given protection against loss of their markets by allowing them to enter into commercial egg production in proportion to the amount of pullet sales lost. This program should operate for a period of about five years to protect pullet producers during the adjustment period immediately following initial quota allocation.

Minimum Prices

102 (10) A system of weekly minimum prices to producers should be instituted as part of the sales quota program. Price differentials related to the quantity of eggs shipped per pick-up should be negotiated with grading stations. Minimum prices for Eastern and Northern Ontario should be established in co-operation with marketing boards in Manitoba and Quebec.

Demand Expansion

104 (11) The Egg Board should develop a number of programs to encourage expansion in demand for egg products.

Financing and Control of Egg Production

72 (12) Incomes of egg producers should be improved and stabilized through a sales quota program in order to make individual producers more able to bear the risks of egg production.

73 (13) Access to the market through a sales quota program should be given to individual producers rather than companies who supply these producers with feed and pullets.

(Summary of Recommendations cont'd)

74	(14)	A legal limit should be set on the volume of eggs that can be marketed by any one individual or corporation. This limit should correspond to the maximum volume that can be produced on owner-operated farms with two or three workers and with integrated feed supplies. Using this criterion, in the future the maximum quota should not exceed 30,000 to 45,000 hens.
75-78	(15)	The Ontario government should introduce a system of government guaranteed loans to provide operating capital to producers, either through the Farm Credit Corporation or, preferably, through chartered banks. Guarantees on loans should eventually be provided by an organization of egg producers themselves.
78	(16)	The terms of contracts between egg producers and supply companies should be standardized and simplified.

CHAPTER I

INTRODUCTION

Request for a Public Inquiry

The Ontario Egg and Fowl Producers' Marketing Board was established under the Farm Products Marketing Act on October 1, 1964. The Board has the following powers under the Farm Products Marketing Act:

(1) To collect a mandatory levy of two cents per bird on all fowl produced in Southern Ontario that are used for processing;

(2) To require producers to register with the Board and to submit any information relating to the production of eggs and fowl that the Board may determine;

(3) To promote, stimulate and increase the marketing of eggs by such means as it deems proper.

For some time, this Board has been concerned with the development of a marketing plan that would be acceptable to the majority of egg producers in Ontario. One such plan was developed and put to a vote in April, 1968; 53 percent of the 3,745 producers who voted on this plan were in favour of it, but the plan was not implemented because the Farm Products Marketing Board requires that any plan must be accepted by two-thirds of those voting. Apparently, in 1968 lines were drawn between those producers who favoured a quota system and those who did not.

The Board's latest marketing proposal was the result of a resolution passed at the March, 1970 Annual Meeting of Committeemen, which instructed the directors of the Board to prepare proposals for a marketing plan. To register producers to vote on this plan, the Board passed a resolution requiring all egg producers to register with the Board on or before March 15, 1971.

This deadline was extended to June 28, and a total of 2,973 producers were registered to this date.

Some of those in opposition to the proposed plan mounted a strong campaign against it during the course of the registrations. A large number of registrations from small producers were received during the last days of registration to vote and a number of witnesses suggested that a few hens were sold to some farmers who were not egg producers at all so that they could register and vote against the plan. It was even suggested that, in some cases, persons who registered had only five hens or less. Because of these allegations about voter registrations, the Ontario Egg and Fowl Producers' Marketing Board met with the Farm Products Marketing Board and requested that only producers with more than 500 birds be given a ballot and that the proposed plan exempt producers who had less than 500 birds from any regulation. This request was denied and as a result this Public Inquiry was requested by the Ontario Egg and Fowl Producers' Marketing Board.

Approach to Assignment

After the issue of the Order-in-Council herein Mr. Frederick R. Hume, Q.C., of Toronto was appointed Counsel to the Commission and preliminary meetings were held to decide on procedure.

It was clearly desirable to hold public hearings at which interested persons could appear and express their views and that such persons and organizations wanting to be heard could submit written briefs if they wished to do so, but that this should not be a condition precedent to the attendance of any person.

The basic concept was that the hearings would be as informal as possible within reason, and I was most anxious to avoid a court room atmosphere which might tend to inhibit the free expression of opinions.

To this end, a notice was drafted and published in newspapers and periodicals across the province. The notice stated that public hearings would be held and invited interested persons and organizations to present briefs or simply to indicate their desire to attend and make oral submissions. A number of responses were received and an analysis of them led me to conclude that the convenience of the interested parties could best be served by holding hearings in London, Ottawa and Toronto. Hearings were arranged accordingly and each person or organization was invited to attend on a specified day. This, of course, was designed for their convenience but most persons in each area attended all of the hearings there; some in fact attended all of the hearings at all locations. The hearings were as follows:

London	December 15, 16 and 17, 1971
Ottawa	December 20 and 21, 1971
Toronto	January 5, 6, 7, 10 and 13, 1972.

In addition, I had interviews with representatives of hatcheries, feed manufacturers and dealers, chain stores, wholesalers and egg processors. I also arranged for extensive research into various aspects of the industry by Topecon Group Limited of Toronto.

As already mentioned, it was my wish that the hearings be as informal as possible. For this reason, the witnesses were not sworn although one person insisted on testifying under oath. Another and very obvious reason was that, for the most part, witnesses were dealing with proposals and recommendations rather than testifying as to facts.

In the light of events leading up to the establishment of this Inquiry, it was not surprising that at the hearings the submissions were mainly pro-quota or anti-quota. While a few of those favouring quotas had some reservations, particularly as to some details of the plan, the two groups were about equally vehement in advancing their points of view.

Toward the end of the hearings, a member of the 'pro' faction held, what I can only describe as, a roll call asking known supporters of the plan to stand up and be counted. This was an obvious attempt to tip the scale in favour of the plan. In my view, however, my findings and recommendations should not be based on such bare statements of position. The hearings were not at all in the nature of a vote and my duty is simply to assess the problems and attempt to come up with a solution. For this reason, I do not propose even to attempt to count the pros and cons much less to try to evaluate the opinions on the basis of a weighted vote.

CHAPTER II

ORGANIZATION AND FUNCTIONS OF THE EGG INDUSTRY

The production of eggs for human consumption involves the organization of people and capital in a complex system. The sequence of functions starts with the development of basic breeding stock and ends with the sale of eggs or egg products to consumers. Decisions made by firms at one stage of this sequence can have a serious impact on firms operating elsewhere. For this reason, it is important to describe the organization and functions of this system, and to define the position of Ontario egg producers in the context of their industry. The main components of the egg production and marketing system are shown in Figure A.

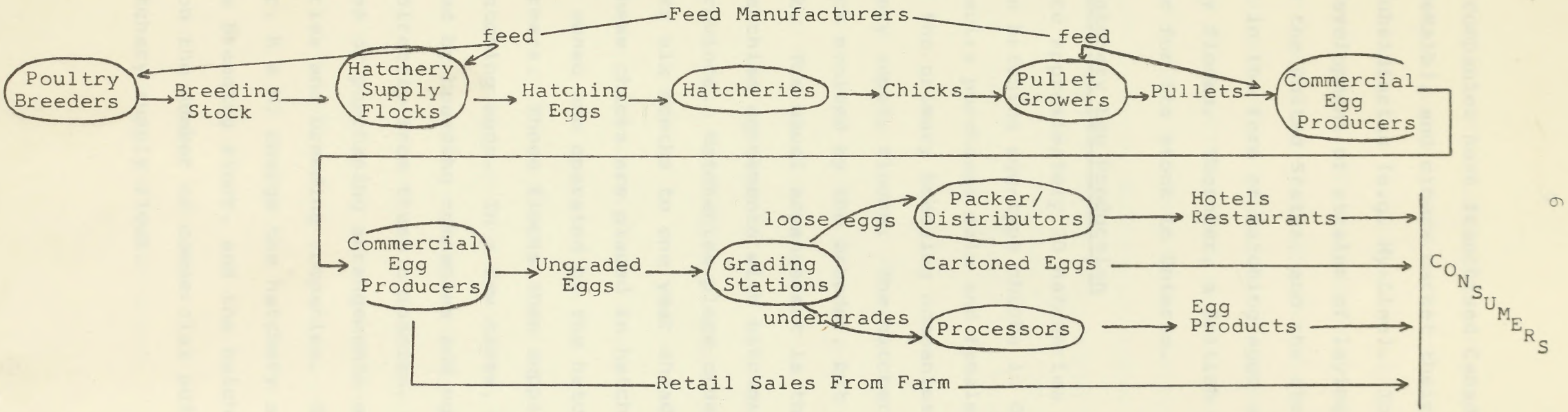
Production of Breeding Stock

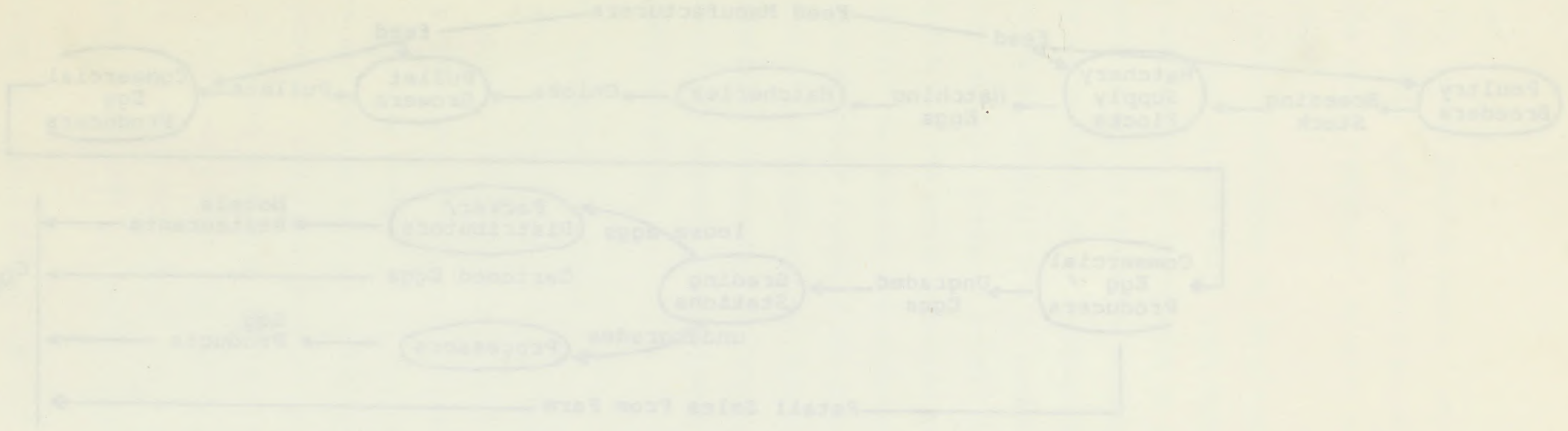
The development, propagation and sale of basic breeding stock to commercial hatcheries is carried out by primary breeding companies. The production of poultry breeding stock in North America has become a highly specialized operation requiring large amounts of capital and technical skill. At the present time, there are two major breeding concerns located in Ontario (Shaver Poultry Breeding Farms, Ltd. in Galt which is controlled by Cargill, a U.S. Company; and Fisher Poultry Farms in Ayton which is an independent Canadian-owned operation). Shaver stock is marketed internationally from breeding flocks maintained in Canada and in many other countries. Fisher's have, in the past, used poultry strains developed by the Canada Department of Agriculture in addition to their own flocks.

Apart from these companies, several other large U.S.-based breeding concerns have marketing arrangements for their stock in Ontario. These include DeKalb, Babcock, Hy-Line, Kimber and H & N.

FIGURE A

ORGANIZATION AND FUNCTIONS OF THE EGG INDUSTRY





Some of these companies have franchised Canadian distributors (e.g. DeKalb), and others market their stock through wholly-owned subsidiaries (e.g. Hy-Line). In all cases, however, the development of strains of laying hens is carried out in the United States, and the stock is imported into Canada in the form of hatching eggs or chicks for hatchery supply flocks. Thornber, a British Company, has one distributor for its stock in Ontario.

Hatching and Hatchery Egg Production

There are approximately 20 hatcheries of significant size engaged in hatching egg-type chicks in Ontario. Each of these hatcheries purchases male and female lines from one or more of the primary breeding companies, for crossing in their hatchery supply flocks. The hatcheries produce the commercial chick evolved by the breeder, but cannot reproduce the basic stock. The usual arrangement is that each breeding company has franchise agreements with hatcheries in several areas of the province. Hatcheries place orders for chicks for their flocks six months to one year ahead of delivery. On delivery, these chicks are placed in hatchery supply flocks, either owned and operated by the hatchery or on contract to farmers. These flocks then supply the hatchery with fertile hatching eggs. In a few cases, hatchery supply flocks are owned by breeding companies and eggs for hatching are purchased directly from these companies.

Two types of purchasing arrangements are commonly used between hatcheries and breeding companies. Some companies (DeKalb, Kimber, H & N) charge the hatchery a small fee upon delivery of the breeding stock, and the hatchery then pays a royalty based on the number of commercial pullet chicks hatched from the hatchery supply flock.

Other companies (Babcock, Shaver, Fisher, Hy-Line) charge the hatchery a flat fee per chick with no royalty. In the opinion of some hatchers, the method of pricing breeding stock has a considerable influence on the number of chicks hatched. It is easier for a hatcher who pays royalties to cut back his hatch when commercial flocks are too large, because he pays no royalties if he doesn't hatch the eggs. A hatcher who purchases breeding stock outright with no royalty will tend to hatch the largest number of pullets possible from his breeding flocks regardless of commercial flock numbers, because his breeding stock is already paid for and he has no incentive to reduce his hatch.

Growing Pullets

In the past twenty years, the growing of day-old female chicks into ready-to-lay pullets has developed into a specialized function in the egg industry. Where previously most commercial egg producers purchased day-old chicks from hatcheries and grew them to laying age themselves, a large proportion of pullets are now raised in specialized facilities separate from commercial laying operations. Two reasons for this development were the reduction of disease problems by growing pullets at a location separate from the laying operation, and the advent of cage laying barns that are suitable only for hens of laying age. Specialized growing operations were then developed to supply cage operations with fully-grown pullets. An increasing number of hatcheries have been involved in the production and sale of started pullets rather than selling their product as day-old chicks. The growing operation is carried out by the hatchery itself or by pullet growers independently or on contract to the hatchery.

Hatching Decisions

While somewhat removed from commercial egg production itself, the importance of hatcheries in determining the supply of eggs during a given time period cannot be over-emphasized. Hatcheries place orders for breeding stock at least six months in advance of delivery. It then takes roughly seven months before hatchery hens begin production of hatchable eggs. It takes roughly a month to save the eggs from the flock and hatch them into chicks, and six months to grow the pullets up to mature laying age. Thus, the decision to expand or contract the number of hens in Ontario's laying flock depends partly on decisions made 18 to 20 months or more earlier when breeding stock is ordered. Granted that there is a lot of flexibility in the number of chicks hatched, because eggs from parent flocks can be either saved for hatching or sold on the table egg market, but once a decision is made to hatch the eggs there is no alternative use for the chicks produced, and these chicks will become laying hens six months later. For this reason, hatcheries play a critical role in determining the size of the Ontario laying flock.

Most of the major hatcheries in Ontario market a large proportion of their output as started pullets on orders from commercial producers. During the latest period of low prices, hatcheries over-estimated their sales of started pullets and found that they had no market for their pullets as producers cancelled or reduced orders due to low prices. This situation led to severe price reductions for pullets and in many cases, hatcheries who could not market their pullets were forced to go into egg production in owned or rented facilities.

These conditions account, in part, for the large increase in contract egg production by hatcheries in 1970 and 1971. In any case, an important reason for the present depressed egg market is that some hatcheries made poor decisions with respect to the number of egg-type chicks to be hatched.

Regardless of the decisions made by Ontario hatcheries, the eggs, chicks and started pullets can be obtained in large quantities at reasonable prices from the United States, so that Ontario producers who wish to replace or expand their flocks have no difficulty in obtaining laying stock. Imports into Canada are subject to tariffs of 3½ cents per dozen on hatching eggs, 2 cents per chick and 2 cents per pound for started pullets.

Commercial Egg Production

It is estimated that there were about 11 million laying hens in Ontario at the end of 1971.[1] Since the early 1950's , poultry production has undergone a period of rapid specialization from small flocks that were usually secondary enterprises on mixed farms to much larger flocks in controlled-environment buildings, in many cases with wire cages and automatic or semi-automatic feeding, watering and egg gathering equipment. Flock sizes have increased quickly and production has become increasingly concentrated in large flocks, as follows:

Number of Hens Per Flock	Number of Flocks 1961	1966	1971
527 and under	50,989	29,923	18,080
528 to 972	1,206	737	502
973 to 2,027	795	557	334
2,028 to 4,973	306	387	195
4,973 and larger	135	334	760
Total	53,431	31,938	19,871

Source: Dominion Bureau of Statistics, Census of Agriculture. 1971 figures estimated by Ontario Egg and Fowl Producers' Marketing Board.

[1] Ontario Department of Agriculture and Food, Seasonal Crop and Livestock Summary, December 1971.

Flocks of over 5,000 hens have increased and flocks under 5,000 hens have decreased, with the largest decline in flocks of 527 hens or less; small 'household flocks' of this size are disappearing from Ontario farming very quickly. Flocks in the largest size class (4,973 and over) averaged 15,500 layers in 1971 as compared to 10,500 layers in 1961. Flocks in this class accounted for almost 86 percent of the total egg supply in Ontario in 1971.[2]

The first laying cycle for a flock of new pullets lasts about 12 to 13 months. After this time, production drops considerably, and egg quality problems (weak shells, blood spots) begin to develop; many flocks are sold for slaughter at this point and replaced with a new flock of pullets. Some flocks are 'force moulted' after the first cycle for a period of about two months and then brought into production for another cycle. The decision to replace or moult a flock depends on the price of eggs and the rate of production of the flock at the time.

The majority of large flocks in Ontario are fed on commercially manufactured feed. Feed manufacturers have made a major contribution to the poultry industry in the past by providing farmers with high-performance feeds, based on advanced technology in poultry nutrition. These feeds and the practice of keeping hens in confinement were responsible for reducing the cost of egg production, and consumers have benefited from these production practices. Some commercial mills, however, have become relatively high cost operations, because they are located in urban centres some distance from production areas, and have high labour costs, high selling costs and high transportation costs of ingredients and feed to and from the mill.

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[2]Loh, M. Economics Branch, Ontario Department of Agriculture and Food.

In recent years, a trend has developed on a few farms toward mixing feed for laying hens at the farm rather than purchasing commercially prepared feeds, brought about by the availability of grain in egg-producing areas, the development of feed supplements that can be mixed with grain to provide nutritionally-efficient feeds and the introduction of farm feed mixing equipment that is low in cost and requires little labour to operate. With these developments, many egg producers are in a position to produce feeds on their own farms that are competitive in performance and lower in cost than feeds produced by commercial manufacturers. Egg farmers, who own or rent cropland, also have an opportunity to use manure profitably as fertilizer and avoid the manure disposal problems that are encountered with specialized operations on small parcels of land which use manufactured feeds.

Ownership and Control of Egg Production

The dramatic changes in farm numbers, flock size and production methods in the poultry industry have been accompanied by changes in ownership patterns and control of egg production units. Up until a few years ago, almost all producers operated their own flocks, purchasing pullets or chicks, buying or producing feed and marketing their own eggs. In the last five to ten years, the practice of producing eggs under various forms of contracts has increased to the point where contract egg production represents a major share of industry volume.

Egg contracts are production arrangements between producer and one or more companies who supply inputs to the egg operation. Typically, the participants are the farmer and a feed manufacturer, the farmer and a hatchery or a three-way contract with the farmer, feed manufacturer and hatchery.

Often pullet growers also participate in the agreement, so that an egg production contract can involve up to four parties. The method of payment to the producer is based on either a flat fee per dozen eggs produced, or a percentage share of the profits with the other participants in the contract. For his fee, the producer provides the building, utilities and the labour, and all other inputs are provided by the other parties in the contract. A typical payment under the flat-fee type of contract is four to five cents per dozen eggs produced, and a feed conversion bonus is often included. Shared-risk agreements usually pay about 17 percent of egg receipts to the producer with the balance split between the hatchery, pullet grower and feed mill. In most cases, the contractor handles receipts and expenses from the flock and makes all of the important management decisions.

The results of investigations into the extent of contract egg production are shown in Table 1. In 1971, contracts covered at least 3,400,000 hens in 343 flocks, or almost 37 percent of the hens in flocks over 1,000 hens in the province. This is more than double the contract volume reported by feed manufacturers and hatcheries in 1969. In addition, these companies owned and operated directly 506,900 hens in 48 flocks. Contracts and direct ownership of facilities by feed manufacturers and hatcheries totalled at least 42 percent of the hens in flocks over 1,000 hens in 1971. From this, it is clear that contracting and ownership by feed companies and hatcheries accounts for a very large part of Ontario's egg production, and has grown very rapidly in the last two years.

TABLE 1

EGG PRODUCTION BY FEED MANUFACTURERS
AND HATCHERIES IN ONTARIO

	1971	1970	1969
Laying hens and pullets, 5 months and over, Dec. 1, no.	11,000,000	11,400,000	10,700,000
Hens and pullets in flocks under 1,000 estimated from 1971 data provided by Ont. Egg & Fowl Producers' Mkt. Bd., no.	1,800,000	1,800,000	1,800,000
Hens and pullets in flocks over 1,000, no.	9,200,000	9,600,000	8,900,000
Hens on contract by feed manufacturers and hatcheries, no.	3,402,400	2,699,300	1,592,000
- as percent of hens in flocks over 1,000, %	36.8	28.1	17.8
- number of flocks contracted	343	290	199
Hens owned directly by feed manufacturers and hatcheries	506,900	389,900	355,600
- as percent of hens in flocks over 1,000, %	5.5	4.0	3.9
- number of flocks owned	48	44	40

Source: Survey of feed manufacturers and hatcheries conducted by Ontario Egg Industry Inquiry.

There are several reasons for this greater involvement in the industry by supply companies. Feed companies have, no doubt, used contracts as a means of maintaining or increasing their prepared feed volume in the face of severe competition from other manufacturers and farm-mixed feeds. The weak financial positions of farmers, coupled with low prices, forced many producers into contracts because they were not able to bear the entire risk of egg production by themselves. Hatcheries who had orders for pullets cancelled by producers were forced to place these pullets on their own farms or on contracts, because there was no other means of disposing of them. Whatever the reasons, it is obvious that production decisions for a large part of the Ontario egg industry have been removed from producers and concentrated in the hands of a few large companies.

The figures in Table 1 do not include financial arrangements between supply companies and farmers. Large amounts of capital are made available to farmers by hatcheries and feed manufacturers in the form of mortgage loans on buildings, chattel mortgages on laying stock and financing of feed over extended periods of time. Although it is impossible to estimate accurately the extent of financing provided by these companies, the testimony of four large feed companies indicates that at the present time these firms have over six million dollars outstanding representing credit extended to Ontario egg producers.

Egg Grading and Processing

Of the eggs sold off farms and by hatcheries in Ontario in recent years, about five percent have been used for hatching into broiler and egg-type chicks. Of the remaining 95 percent sold for human consumption, about 70 percent have been marketed ungraded through and sold by some 170 registered grading stations in the province,

while 25 percent were sold by producer-graders, mostly as graded eggs to a wide variety of customers such as consumers, retailers, institutions, hotels and restaurants, while periodic surpluses were sold to registered grading stations.

Producers regularly ship to the same station, although with few (if any) exceptions no written contracts or agreements are involved. About 60 percent of producers have a gentlemen's agreement with their grading station(s) on the basis of pricing, and transportation arrangements and costs from farm to station. These are generally oral and do not commit either party. Feed companies with production contracts generally have somewhat firmer agreements with grading stations. Most of the smaller egg producers do not have a gentlemen's agreement and do not understand the pricing basis used by their grading station.

The grading operation consists of washing, grading as to quality, sizing and packing into key trays or cartons. The undergrades, B's, C's and Cracks, are sold to egg processors for breaking, to be made into a wide variety of liquid or frozen egg products. These processors also purchase small quantities of A quality eggs, mainly when egg prices are seasonally depressed. In Western Canada, a high proportion of undergrades are processed into powdered egg products, which have experienced a steady increase in demand during the last decade. There are no facilities in Eastern Canada for the manufacture of powdered egg products.

For the grading stations as a whole, about 65 percent of grade A eggs are sold in cartons, and 35 percent are loose packed, usually in 15 dozen cardboard cases. The proportion sold in cartons is much higher (usually in excess of 80 percent) for the larger stations, which are owned by, or have supply arrangements with, the larger food chains. A high proportion of these eggs are packed in store brand cartons.

Payment to Producers

Practically all grading stations pay producers for ungraded eggs at a discount under the wholesale price, in relation to what they sell. About 65 percent of the grading stations buy on the basis of the Toronto 'carton' price.[3] This quote is based on prices and quantities of grade A extra large, A large, A medium and A small eggs in cartons sold to retailing firms in Metro Toronto, as reported to officials of the Poultry Division, Canada Department of Agriculture, each day by up to 15 registered grading stations. The Poultry Division calculates average prices which are reported each day in many newspapers.

About 15 percent of the grading stations, mainly smaller ones, base their paying prices on the Toronto 'loose' price, as reported in the newspapers daily. This price refers to graded eggs, packed 'loose' in 15 or 30-dozen wooden or cardboard cases, and is reported for A extra large, A large, A medium, A small, B and C. This price is collected by one of about six of the larger loose egg wholesalers in Metro Toronto who account for the bulk of sales. Each reports the price that he paid or agreed to pay that day for eggs purchased from outside suppliers and delivered in Toronto. The reporter quotes a price range rather than an average for each grade to the newspaper each day.

Finally, 22 percent of the grading stations base their paying prices on other wholesale markets. A few stations in Northern Ontario use Winnipeg wholesale prices, while most stations east of Toronto use Montreal quotations, often in conjunction with the Toronto carton quote in varying combinations.

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[3] Hunt, E.C. Ontario Registered Egg Grading Station Survey. Department of Poultry Science, University of Guelph, August 1971.

The extent of the discount under the wholesale price quotation that is used on this basis differs considerably among grading stations, and few stations adhere strictly to a specified discount. Moreover, few stations pay all producers on the same basis, but evidently make special pricing arrangements with some producers that apparently are not based on significant differences in size of lots shipped.

About 36 percent of the grading stations pay a volume differential. While there is justification for price differentials related to size of lots shipped to reflect substantial differences in transportation, grading and administration costs, price differential schedules actually used differ widely and with a few exceptions do not appear to reflect closely the real differences in cost, as related to size of lots shipped. In many cases, graders are prepared to pay premiums on one or several grades to producers with large flocks or more than one flock, even though the size of lots shipped is no larger than those shipped by smaller-scale producers. Many of the larger egg producers appear to ship eggs regularly to two or more grading stations often in somewhat varying proportions from week to week. While this practice considerably increases the cost of transporting and grading, these producers apparently do not have sufficient confidence in any one grading station. They regularly compare prices and grade-outs obtained at each station. Most of the larger stations that do not pay a volume differential refuse to accept eggs from small producers.

Practically all of the larger stations either pick up eggs in their own trucks or make arrangements with commercial truckers for this purpose. In the latter case, the cost of the inbound transport is charged to producers and generally deducted from payments made by grading stations. When stations pick up eggs in their own trucks no charge is made in most cases but this cost is reflected in the discount at which eggs are priced.

With few exceptions, the larger grading stations either do not allow producers to deliver the eggs themselves or discourage this practice by not rewarding producers sufficiently for providing this transportation service.

Supply Arrangements to Retailers

Egg producers and grading stations have become aligned into two rather isolated systems. Larger-scale grading stations, which sell a high proportion in cartons at more storable and higher prices, buy eggs mainly from larger producers. Smaller stations, which usually sell loose pack eggs at a discount under carton prices varying from two cents to ten cents per dozen, obtain most of their eggs from smaller producers, often only the surplus which these producers cannot sell direct to retailers or consumers. Most of the cartoned eggs are supplied by the 20 largest grading stations, many of which pack into at least 10 different brands.

Three food chains (Dominion Stores Ltd., Loblaw Groceterias Ltd. and Oshawa Group Ltd.) operate wholly-owned grading stations in Toronto, which supply the bulk of the carton egg requirements of their stores; these eggs are supplied from their Toronto wholesale warehouses. In remoter parts of the province, their stores are supplied by independent graders, who have rather permanent supply arrangements with these food chains, although no written contracts are involved. The other food chains, which do not operate grading stations, have similar supply arrangements with one or more graders in each area of the province for the sale of eggs in store brand cartons delivered to stores.

The egg grading-packing process has become concentrated in fewer hands during the last decade. The number of registered grading stations in Ontario declined regularly from 412 in 1960 to 183 in 1970. Registered packing stations purchase graded loose packed eggs only, either from registered grading stations or from producer-graders, for repacking into cartons. In many cases, these eggs have to be regraded to guarantee quality. Despite the evident added cost associated with this double handling, packing stations expanded in significance until the mid-1960's, as suppliers of carton eggs to food chains. Since that time, the larger grading stations have been gradually replacing packing stations as suppliers of carton eggs to many food stores.

In 1971, the five largest registered grading stations in Ontario, including the three operated by food chains, accounted for 33.3 percent of egg gradings. The ten largest graded 50.9 percent; the twenty largest 70.3 percent; and the 50 largest graded 89.9 percent. The remaining 10.1 percent was graded by some 110 small stations.[4]

Wholesale-To-Retail Pricing

The price for eggs in store brand cartons is negotiated between graders and retailers from time to time, and is invariably related to the wholesale-to-retail carton price as determined from information collected from many of these same graders by the Poultry Division, Canada Department of Agriculture, and published daily in the main newspapers.

Since the terms of each supply arrangement between a grader and retailer in a particular area are the result of a separate negotiation, there are substantial differences with respect to terms of sale, including the pricing basis.

[4] Canada Department of Agriculture, Poultry Markets Division.

Moreover, the pricing basis is considered to be only a guide in price establishment and adjustments are negotiated by a retailer when a grader is considered to be 'out-of-line' with graders supplying that retailer's competitors in the area. In addition, price adjustments are frequently made when a grader is temporarily 'long' on one or more sizes of eggs, in which case the retailer will feature them.

As a consequence, carton eggs are sold by graders to retailers at widely varying prices. In Metro Toronto, grade A large eggs in cartons are sold wholesale-to-retail within a typical range of about 2½ cents above and below the Globe & Mail price, but on some days this widens up to as much as 5½ cents. One or more lots of eggs may be sold as much as 9 cents below the Globe & Mail price, while other lots sell at up to 4 cents above. Several graders regularly sell lots of eggs at up to six different prices based on arrangements they have with each retailer. Some graders evidently sell quite regularly at a premium over the Globe & Mail price, while others consistently sell at a significant discount even though they provide the extra service of store delivery, which costs about one cent per dozen. Some graders keep their selling price constant for periods of one week or more, while others vary their selling prices frequently, often by large amounts.

Loose pack eggs are sold by graders either direct to large consumers such as hospitals, hotels and restaurants, or to egg wholeslaers and distributors who in turn supply these consumers. In Metro Toronto, some 30 wholesalers supply this market with eggs often with other produce items such as meats and dairy products. Most of these wholesalers are registered packing stations; several are also engaged in egg grading and processing and in egg brokerage and trading in large lots.

Each of these wholesalers has been supplying a number of regular clients in this market for many years with a variety of products, delivering perishables several times each week. They are in a position to charge rather stable, relatively high, prices for loose eggs.

Grading stations that market loose pack eggs direct to institutions are also generally able to maintain stable prices, often at a significant premium over the loose pack wholesale quotation reported in the newspapers. This quotation represents a 'market of last resort' where producer-graders and registered graders sell from time to time any quantities which are surplus to direct sales in carton or loose pack. The loose egg price, which is determined by about six wholesalers who dominate the loose egg market, is based on less than five percent of Ontario's grade 'A' eggs which may be surplus, and has a strong influence on the price received by producers in Ontario for all grade 'A' eggs.

Retailing

Eggs are sold to consumers in food stores from five to ten days after grading. In larger urban centres, sales of carton eggs are concentrated in stores of about ten chains of food supermarkets and convenience stores. Over 80 percent of the eggs are sold from Wednesday to Saturday when most consumers do their weekly shopping.

Eggs account for only about 2.5 percent of consumers' total food expenditure, and for no more than 3 percent of their purchases in food stores. The average Ontario family purchases 1.4 cartons of eggs per week, or .4 cartons per person.[5] The quantity of eggs purchased varies little from week to week, with the following exceptions:

[5]Dominion Bureau of Statistics, Family Food Expenditure in Canada, 1969, Volume I, Catalogue Number 62-531.

(1) Purchases during Easter and Christmas weeks are as much as double those of other weeks. More moderate increases are associated with Thanksgiving, Labour Day and several other holidays.

(2) Advertised features will increase purchases of eggs by at least 20 percent, with little or no effect on week-after purchases.

With these exceptions, consumers' purchases of eggs are quite stable from week to week despite very large seasonal and cyclical variations in retail prices for eggs, which follow changes in the wholesale carton price rather closely, but with a lag of one to two weeks. This is due to the fact that most chains set retail prices once a week and will maintain these prices in succeeding weeks until a significant change occurs in the price at which they purchase eggs. The retail margin received by chain stores is basically a mark-up of a fixed percentage, with modifications related to rounding and to ensure a minimum rate in cents per dozen, when egg prices fall below a certain level. It is not possible to be more precise, due to the wide differences in practices used by each chain in both buying and selling of eggs. Prices in each of the four large chains generally move within a range of about three cents, which widens to six or more cents from time to time for periods of up to four weeks with no chain being consistently at either extreme of the range. In the case of several chains, however, there is considerable variation between stores in egg prices, whether by design or not. In one such case (during several weeks in February of this year), a Loblaw store in a strategic location in a downtown Toronto shopping mall was charging 53 cents for A large, when in its other stores in more competitive areas the price was 42 cents.

CHAPTER III

INCOMES OF EGG PRODUCERS

The major reason for the establishment of this Commission was a widespread concern in the industry and in government over the income position of egg producers in the province. In the public hearings conducted by the Inquiry, the evidence indicated that most egg producers have suffered very severe financial losses during the past two years, and that these losses threaten to drive many producers, even the efficient ones, out of the industry. An analysis of returns in egg production over an eleven-year period was undertaken in order to evaluate the problem and to determine the need for policies affecting the income of producers.

Egg Prices and Egg Production Costs

It is difficult to determine accurately the prices received by producers for eggs in Ontario, over a long period of time. As discussed previously, there are great differences in pricing practices of grading stations with respect to the pricing basis, discounts under or premiums over this basis, volume discounts, quality differentials and transportation costs. With these diverse pricing practices, the published statistics on egg prices reflect only the general price situation in the industry and cannot be said to represent the price received by any individual producer.

Statistics that most closely reflect prices actually paid by grading stations to producers are published by the Poultry Markets Division, Canada Department of Agriculture.

These are average paying prices to producers at registered grading stations, based on the London area, for all grades of eggs including undergrades, and probably reflect as accurately as possible the price conditions faced by the producers in that area of the province. These prices with comparative prices for Canada as a whole are shown in Table 2. Prices over this eleven-year period have been extremely variable, ranging from a high of 41.4 cents per dozen in 1966 to a low of 21.6 cents in 1971. The 1971 price was five cents per dozen lower than any other price experienced during the previous ten years and this alone illustrates the reason for the very real concern about the plight of the producer.

It is even more difficult to discuss the question of the producers' costs of production than it is to discuss prices. Considering the wide variations in the age and cost of egg production facilities, the management practices of producers and sources of capital used to finance the operations, there is no way of calculating accurately the cost of producing eggs for all or even a large majority of producers. The best that can be done is to determine the costs experienced by a production unit that can be said to be typical of the operations of a significant number of farmers. For the purpose of examining the effects of conditions in the egg industry on producers' incomes, production costs that reflect the situation of many Ontario producers were investigated. These costs were considered 'typical' for medium-sized producers who use reasonably modern production practices and who account for a large proportion of the egg volume in the province. Estimates of these costs are shown in Table 3.

The cost figures shown here apply to a barn with a capacity of 10,000 hens. The production cycle for the flock is 60 weeks. Pullets are purchased at 20 weeks of age, and begin laying a significant volume of large eggs at 26 weeks.

TABLE 2

AVERAGE PRICES TO PRODUCERS WEIGHTED BY GRADE AT REGISTERED GRADING STATIONS, ONTARIO AND CANADA, BY YEAR, 1961 TO 1971

Year	Ontario	Canada
	--cents/dozen--	
1961	32.9	31.3
1962	31.0	29.9
1963	35.3	33.6
1964	26.9	26.2
1965	31.5	31.4
1966	41.4	39.4
1967	29.2	28.4
1968	31.8	31.8
1969	38.2	37.7
1970	27.4	29.6
1971	21.6	25.4
11-year average	31.6	31.3

Source: Canada Department of Agriculture, Poultry Market Review.

TABLE 3

PRODUCTION COSTS FOR A 10,000-HEN FLOCK OF CAGED LAYERS
OVER A 60-WEEK PRODUCTION PERIOD

Item	Description	Cost Per Unit	Cost Per 60-Week Period	Cost Per Dozen Eggs Produced
			--$--	--¢--
Production Rate	20 dozen eggs per hen housed per 60-week period			
Operating Costs				
Feed	commercial manufactured cage layer ration, 4.25 pounds of feed consumed per dozen eggs produced	$80 per ton	34,000	17.00
Flock Depreciation	20-week started pullets, replaced after 60 weeks; salvage value 30 cents per hen, 15 percent mortality	$1.90 per bird	16,500	8.25
Interest on Pullets	7 percent per annum on $1.90 for 60 weeks		1,530	0.77
Medication and Sanitation		1¢ per hen	100	0.05
Labour	4 hours per 1,000 hens per week, or 2,400 hours per production period	$2.00 per hour	4,800	2.40
Marketing Board Fee	paid on sale of hens from the flock, 8,500 hens	2¢ per hen sold	170	0.08
Other Operating Costs	electricity, water, phone, etc.		400	0.20
	Total Operating Costs		57,500	28.75

Table 3 (cont'd)

Item	Description	Cost Per Unit	Cost Per 60-Week Period	Cost Per Dozen Eggs Produced
			--$--	--¢--
Overhead Costs				
Buildings and Equipment	10,000-hen cage layer barn, mechanized feeding and manure removal, manual egg collection; annual costs include depreciation, interest, repairs, taxes and insurance, estimated at 17 percent of new cost per year	$3.50 per bird capacity $2.10 for buildings $1.40 for equipment	6,870	3.43
Total Operating and Overhead Costs Per 60-Week Period			64,370	32.18

Sources: J.P. Walker, Department of Poultry Science, University of Guelph.

Ontario Department of Agriculture and Food, Looking at Caged Layers, Agdex 451/811, June 1970.

The flock lays for 52 weeks and the hens are sold for slaughter about 58 weeks after they are purchased, leaving a cleanout and sanitation period of 2 weeks to complete the 60-week cycle. Total egg production (all grades) was estimated at 20 dozen per hen housed at the beginning of the cycle, over the 60-week period. This amounts to 200,000 dozen for the 60-week cycle, or 171,400 dozen per calendar year.[6] Of course, the production from any one flock may vary considerably depending on when the flock was started, and annual production of 171,400 dozen was considered only as an average over several years, assuming that the operator followed the flock replacement schedule described above. Interest on the cost of pullet replacements was included at seven percent per year. Mortality was estimated at 15 percent of birds housed. Flock mortality was higher than 15 percent on many farms previous to the introduction of Mareck's disease vaccine, but will probably be less than 15 percent if the vaccine is widely used in the future as appears to be likely. Feed requirements for the flock were estimated at 4¼ pounds of feed per dozen eggs produced, at a cost of $80 per ton. The cost of commercial layer feeds has varied considerably over the last eleven years, due to varying ingredient prices, and may vary considerably at any time due to volume discounts, competition between dealers and feed financing arrangements. A cost figure of $80 per ton was taken as a typical feed price during this period. No financing cost was included on the feed for the flock because short-term (30 to 60-day) financing on feed is usually borne by feed manufacturers.

The birds were assumed to have been housed in an enclosed cage layer barn with mechanized feeding and manure handling, and manual egg collection. New cost for the building and equipment was estimated at $3.50 per bird capacity.

[6] Actual egg production per 52-week period would be 173,300 dozen, not 171,400 dozen as used in the following calculations. This minor discrepancy does not affect the results of the analysis.

Building and equipment costs have risen considerably over the past eleven years, and new facilities would probably cost more than $3.50 per bird at the present time. All overhead costs for the building were estimated at 17 percent of new cost per year. This figure reflects a depreciation rate of 5 percent per year for the building, 20 percent per year for the equipment, interest on the average investment in the building at 7 percent per year and repairs, taxes and insurance. Labour requirements for the flock were set at 40 hours per week; this could vary anywhere from 20 to 70 hours, depending on the degree of mechanization of the building and the efficiency of the operator. A rate of $2.00 per hour was used for all labour in the operation.

Using these production estimates and materials' prices, the cost of producing eggs from the operation described above would be about 28.8 cents operating and 3.4 cents overhead, or a total of 32.2 cents. This is in no way an attempt to determine what producers' costs should be, but merely to estimate the costs that likely were experienced on the average by many reasonably efficient, medium-sized producers in Ontario over the last decade. Many producers indicated in testimony in the public hearings that their egg production costs were in the area of 32 cents per dozen, and this testimony lends considerable support to the cost figures developed here.

It is unrealistic to assume that producers' costs have remained constant at 32 cents per dozen over the last eleven years. To be sure, there have been many changes in the costs of inputs in egg production over this period. Buildings, equipment, labour, utilities, taxes and insurance have certainly become more expensive.

Part at least of the increase in cost of these items has been offset by improvements in labour utilization on egg farms, improvements in production and feed efficiency of laying stock and advances in sanitation and disease control. Feed ingredient prices have been quite variable over the last decade, but it is difficult to say whether the trend in feed prices has been up or down because a considerable portion of the cost of feed is a payment for services provided by manufacturers. A lengthy and detailed analysis would be required to assess the effects of all of these factors on production costs, and a 'typical' production cost estimate was considered satisfactory for the purposes of this report.

Effects of Production Practices on Egg Supply

Before leaving the question of egg production costs, it is necessary to discuss the effects of changes in egg production technology on the total volume of eggs produced. Many of the improvements in production practices that have taken place in the industry have caused an increase in the volume of eggs produced from existing egg barns. Genetic improvements in laying stock and improvements in layer feeds have increased the number of eggs produced per hen. During the 1960's many producers changed from the old floor method to the cage method of housing their hens. New or remodelled cage laying barns were stocked at a much higher density than the older floor operations. The latest improvement in disease control, Mareck's disease vaccine, has increased production dramatically by reducing mortality. Existing buildings are now used more efficiently because more birds live through the production period.

All of these developments have had the effect of increasing the volume of eggs produced from existing facilities in the province.

Many egg farms employ the labour of only one or two men and farm operators always tend to fill their barns to capacity to use their labour and facilities most efficiently. These farmers do not cut back production because they typically only have one or two barns and there is no way of reducing production from the barns, short of going out of the business entirely because in the short run, they have no other use for the buildings or for their own labour. Thus, existing buildings tend to remain in egg production, the quantity of eggs produced increases due to changes in technology that increase production and the total supply of eggs produced by the industry increases. With a stable demand for the product the increase in supply has a depressing effect on prices, producer incomes are reduced and producers may in fact have lower returns than before the improvements in efficiency were introduced. Because there are a large number of farmers producing eggs, no one producer can make a decision to cut back his production to compensate for the improvement in efficiency - he will lose rather than gain by cutting back - unless all other producers make a similar decision. In fact, it can easily be argued that egg farmers have lost rather than gained from improvements in efficiency of their operations because all of the benefits of these improvements have been passed on to consumers in the form of lower prices. The problem of oversupply due to the introduction of new technology is a chronic problem in agriculture and it affects the incomes of producers of almost all farm products.

Returns from Egg Production

The prices and production costs discussed above were used to determine the profits or losses experienced by our 'typical' egg producer from 1961 to 1971. These calculations are shown in Table 4. The eleven-year average egg price for all grades was 31.6 cents per dozen; this price fluctuated in a very wide range between a high of 41.4 cents in 1966 and a low of 21.6 cents in 1971. With a total cost per dozen of 32 cents, the 'typical' producer with a flock of 10,000 hens would have had a small loss of $750 per year on average over the eleven-year period. Even if one considers that prices and costs faced by individual farmers varied quite widely around these typical figures, it is clear that average returns over the last decade have been quite low and that most of the less-efficient producers have on the average lost money.

The profit or loss calculated in this way represents a return to the producer's management after a labour return of $2.00 per hour, a capital return of seven percent per year, and all other operating and overhead costs are deducted from gross egg receipts. The actual cash income to the farm operator would be quite different than the profit or loss from the enterprise. Over the eleven-year period, the 'typical' producer would have had a return to his labour of $4,160 ($2.00 per hour for 2,080 hours each year) plus a return of seven percent per year for his own equity capital invested in the business, less a loss of $750. If all capital were borrowed, the average return to labour and management would have been $3,410 ($4,160 less $750).

TABLE 4

RETURNS FROM EGG PRODUCTION FROM A 10,000-HEN FLOCK FED ON PURCHASED FEED 1961 TO 1971

Year	Annual Avg. Price Ontario*	Prod'n Cost	Profit /Loss	Annual Profit /Loss for 10,000-Hen Flock**	Cumulative Profit /Loss
	---------cents/dozen--------			-----dollars------	
1961	32.9	32.0	.9	1,540	1,540
1962	31.0	32.0	-1.0	-1,710	- 170
1963	35.3	32.0	3.3	5,660	5,490
1964	26.9	32.0	-5.1	-8,740	-3,250
1965	31.5	32.0	-0.5	- 860	-4,110
1966	41.4	32.0	9.4	16,110	12,000
1967	29.2	32.0	-2.8	-4,800	7,200
1968	31.8	32.0	-0.2	- 340	6,860
1969	38.2	32.0	6.2	10,630	17,490
1970	27.4	32.0	-4.6	-7,880	9,610
1971	21.6	32.0	-10.4	-17,830	-8,220
11-Year Average				- 750	

*Canada Department of Agriculture, Poultry Markets Division, weighted average price for all grades.

**Egg production of 171,400 dozen per 12-month period.

Source: Analysis.

If the operator had no debt on the building and the average investment in the building were $17,500[7], then his return on his labour, equity, capital and management would be $4,160 for labour, plus $1,230 for his capital (seven percent of $17,500), less a loss of $750, for a total of $4,640 per year. In interpreting the profit in Table 4, it is important to remember that these figures represent profits or losses to the enterprise after returns have been paid to labour and capital.

Returns per dozen eggs produced ranged between a profit of 9.4 cents per dozen in 1966 to a loss of 10.4 cents per dozen in 1971. The highest profit from our 'typical' 10,000-hen flock was $16,110 in 1966, and the largest loss was $17,830 in 1971. The enterprise would have made a profit in only four of the eleven years, and would have had losses the other seven years. From this, it is obvious that the returns from egg production and the incomes of egg producers have been highly variable over this period. The farmer in this example would have had to finance his losses in low price years in order to stay in business, and he could not do this unless he had savings or other enterprises to depend on. Accummulated profits or losses, as shown in the last column in Table 4, were $12,000 to 1966, $9,610 to 1970 and -$8,220 to 1971.

Because of the high volume of eggs produced from intensive layer operations and the low margin on each dozen, the price received for eggs has a tremendous influence on returns from an egg farm. In this respect, the decisions of producers as to when to replace flocks and at what rate to stock their facilities have an important influence on profits.

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[7]Average investment is used here rather than new cost for the calculation of interest payments because depreciation was included in overhead costs; as the building is depreciated the investment is reduced. The average investment of $17,500 is the average of new cost ($35,000) and salvage value (zero) for the building and equipment.

Overhead costs for the building of the typical producer, which have to be paid whether the barn is in production or not, were estimated at about $6,870 for a sixty-week period or about $6,000 per year. In 1964, 1970 and 1971, the losses on the operation were greater than this overhead cost; in other words, by leaving the barn empty in these years the producer would have lost less money than by producing eggs. In fact, the farm discussed here would have gained $16,600 or an average of $1,510 per year over eleven years, by leaving his barn empty in 1964, 1970 and 1971. Of course, this can be an advantage to an individual producer only if other producers in the industry are doing exactly the opposite, i.e. producing at full capacity.

Debt Payment

The building in this example was depreciated over a period of twenty years and the equipment over a period of five years. A common problem in financing a farm business, and any other business for that matter, is that the repayment period on loans used to finance facilities is shorter than the useful life of the facilities. Even if an egg farm is profitable over a twenty-year period, the operator may have serious shortages in his cash flow if he is forced to repay a debt on the building over a shorter period of time. When repayment periods are shorter than the useful life of facilities, farmers are forced to save or accumulate equity in the operation. With an annual labour and management return of only $3,410 from the operation, it would be extremely difficult for the farmer in our example to repay a loan on the facilities in less than twenty years. Since government and private lenders would not normally finance laying barns over a period longer than fifteen years at most, many producers must have had serious repayment problems.

Effect of Pricing Methods on Producer Incomes

A very small change in the price of eggs (or the cost of producing eggs) has a tremendous influence on producers' returns. From Table 4, it is seen that a change in price of one cent per dozen changes producer returns by $1,714. Considering that egg prices have fluctuated in a twenty-cent range in the last six years, the instability of egg producers' incomes must be considered a critical problem in the industry. These price and cost relationships also mean that producers who supply eggs to high-price markets, i.e. those who retail their own eggs or sell them to a grader who supplies the Toronto carton market, will have much higher returns than those who sell on the low-price loose egg market. Even among producers who are paid on the basis of the Toronto carton market, it is not unusual to have differences of up to three cents per dozen in prices paid by different grading stations on any given day.[8] A producer whose average egg price was three cents above or below the annual average would have annual profits or losses of about $5,000 higher or lower than those shown in Table 4.

Prices for Inputs

As in any other part of agriculture, there are great differences in the ability of egg producers to manage their operations. Generally, unless farmers have very large operations and can buy substantial volumes of inputs such as manufactured feed, pullets, medications and equipment, they are limited to normal volume discounts on these items. While it is certainly possible to save money on these items with intelligent buying practices, there are limited opportunities for major savings in production costs.

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[8]Mail-in survey of 2,000 egg producers by Ontario Egg Industry Inquiry.

Feed is by far the most important single item in the cost of producing eggs. This item alone accounts for over 50 percent of total production costs, and thus it is an important item in terms of potential cost savings. As indicated in Chapter II, most flocks in Ontario are fed on commercial feed manufactured in large central mills. In the last ten years, feed supplements and farm feed mixing equipment have been developed for the preparation of layer feeds at the farm itself, using grain grown on the farm or purchased locally.

The alternatives available to egg producers for obtaining their feed include:

(1) Purchasing a complete formula feed from a commercial feed manufacturer;

(2) Purchasing grain, protein supplements and other feed ingredients, and mixing these ingredients at the farm;

(3) Growing part or all of the grain on the farm, and mixing at the farm with purchased protein supplements.

The relative costs of obtaining feed from these sources were compared using feed and ingredient prices prevailing in February, 1972. These calculations are summarized as follows:

	Total Feed Cost	
	Per Ton	Per Dozen Eggs Produced
	--$--	--¢--
(1) Complete 16½ percent protein cage layer ration delivered in bulk lots from a commercial mill	80.00	17.0
(2) Shelled corn, 36 percent layer supplement and soybean oil meal delivered and mixed at the farm	66.50	14.1
(3) Corn grown on the farm and mixed with layer supplement less the value of poultry manure at $10 per acre*	59.50	12.6

*Total corn production costs were budgeted at $96 per acre. Land was valued at $350 per acre, and a harvested yield of 90 bushels per acre was assumed.

Sources: Ontario Department of Agriculture and Food, Economics Branch.

United Co-operatives of Ontario.

All labour and capital invested in corn production and feed mixing facilities were included in making this comparison. A conservative estimate is that farmers can save about three cents per dozen by mixing ingredients at the farm, and another one & one-half cents per dozen by growing their own grain, depending of course on the price of grain in any particular year.

An egg production cost of 27½ cents per dozen was used to represent an operation with farm-grown grain, and producer returns from 1961 to 1971 were calculated. As shown in Table 5, a 10,000-hen flock would on average have made a profit of $6,970 per year, over the eleven-year period. Returns during this period would have ranged from a high of $23,820 in 1966 to a low of -$10,110 in 1971, with losses in ~~seven~~ three of the eleven years, compared to losses in seven of the eleven years if the flock were fed on purchased feed. The income on the farm in this example would be increased by $7,700 per year by combining grain and egg production on the same farm. This includes a small profit from the grain growing operation and egg production would have been quite profitable on this basis over the last eleven years.

An egg producer who grows his own corn and mixes his own feed for his hens must have a substantial investment in land, equipment, corn storage and feed mixing facilities, plus additional operating capital to finance the corn crop and purchased ingredients.[9] In spite of the cost advantages in farm feed mixing, many producers are unable to obtain additional capital to finance crop production and are forced to depend on commercial manufacturers for their feed.

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[9]Capital requirements for a 130-acre corn operation to supply the farm in this example were estimated at $77,000 plus $6,000 operating capital. A farm feed mill for this operation could be installed for roughly $5,000.

TABLE 5

RETURNS FROM EGG PRODUCTION FROM A 10,000-HEN FLOCK WITH FEED GROWN AND MIXED ON THE FARM, 1961 TO 1971

Year	Annual Average Egg Price*	Prod'n Cost**	Profit /Loss	Annual Profit /Loss for 10,000-Hen Flock***	Cumulative Profit /Loss
	--------cents/dozen--------			------dollars-----	
1961	32.9	27.5	5.4	9,260	9,260
1962	31.0	27.5	3.5	6,000	15,260
1963	35.3	27.5	7.8	13,370	28,630
1964	26.9	27.5	-0.6	-1,030	27,600
1965	31.5	27.5	4.0	6,860	34,460
1966	41.4	27.5	13.9	23,820	58,280
1967	29.2	27.5	1.7	2,910	61,190
1968	31.8	27.5	4.3	7,370	68,560
1969	38.2	27.5	10.7	18,340	86,900
1970	27.4	27.5	-0.1	- 170	86,730
1971	21.6	27.5	-5.9	-10,110	76,620
11-Year Average				6,970	

*Canada Department of Agriculture, Poultry Markets Division.

**The saving in feed cost due to growing grain and mixing feed on the farm was estimated from feed and ingredient prices prevailing in February, 1972. Poultry manure was valued at $10 per acre as fertilizer in corn production.

***Egg production: 171,400 dozen per 12-month period.

Source: Analysis.

Contract Egg Production

The development of contract production in the egg industry has been dealt with in Chapter II. It is interesting to compare the effects of different types of egg production contracts with owner-operated facilities as to the effects of these arrangements on producer incomes. In Table 6 the labour and management returns from an owner-operated flock of 10,000 hens are compared with two types of egg production contracts. In both contracts, the operator provides the building space, utilities and all labour for the operation for a fixed fee of 5 cents per dozen eggs produced, or a share of 17 percent of egg receipts. Copies of the contracts used by many companies in Ontario were obtained during the course of the Inquiry; some of these included various types of bonuses for the operator based on feed efficiency or production from the flock. These two types of contracts are relatively simple but are being used for many contract arrangements at the present time.

The return to labour and management from a 10,000-hen flock managed by an independent owner-operator varied from $20,270 in 1966 to a loss of $13,670 in 1971, and averaged $3,410 over the eleven-year period. In comparison, a fixed-fee contract would have given the operator $2,270 per year, or $1,140 per year less than the independent operator. Labour and management returns from a shared-risk contract would have varied from $5,770 to zero averaging $2,900 per year over eleven years, or $510 less than the owner-operated farm.

From the comparisons, it is easy to see why egg producers have entered into contract agreements with hatcheries and feed manufacturers. Independent operators have experienced extreme variations in their labour incomes, and profits on average have not been high enough to allow them to build up savings in good years to compensate for bad ones.

TABLE 6

ANNUAL RETURNS TO AN EGG PRODUCER FOR LABOUR AND MANAGEMENT OF A 10,000-HEN FLOCK UNDER DIFFERENT MANAGEMENT ARRANGEMENTS, 1961 TO 1971*

Year	Egg Price Average For All Grades	Owner-Operator	Fixed Fee Contract 5 Cents/ Dozen**	Shared Risk Contract 17 Percent of Egg *** Receipts
	--cents/ dozen---	----------dollars/year----------		
1961	32.9	5,700	2,270	3,290
1962	31.0	2,450	2,270	2,740
1963	35.3	9,820	2,270	3,990
1964	26.9	-4,580	2,270	1,540
1965	31.5	3,300	2,270	2,880
1966	41.4	20,270	2,270	5,770
1967	29.2	- 640	2,270	2,200
1968	31.8	3,820	2,270	2,970
1969	38.2	14,790	2,270	4,830
1970	27.4	-3,270	2,270	1,690
1971	21.6	-13,670	2,270	0
11-Year Average		3,410	2,270	2,900
Per Hour of Labour		$1.64	$1.09	$1.39

*2,080 hours of labour per year.

**Operator provides labour, building and utilities for a fee of 5 cents per dozen egg produced.

***Operator provides labour, building and utilities for a share of 17 percent of the egg receipts.

Source: Analysis.

Under these conditions, farmers who have built laying facilities and who have no other employment opportunities are forced to enter into contract agreements to make their returns more secure, although these contracts yield them a very low payment for their labour, management and facilities.

Producer Incomes in 1972

Although egg prices and producer incomes have always experienced extreme cyclical variations, there are good reasons to believe that the latest period of low prices which has prevailed since 1970 is the worst in many years. With a weighted average price of 27.4 cents in 1970 and 21.6 cents in 1971, producers have faced two consecutive years of heavy losses. The depressed prices of 1971 produced the largest losses to producers in any of the eleven years studied in the analysis. (See Table 4) Combined losses in 1970 and 1971 were more than enough to offset the large profits to producers in 1969.

There is every indication that 1972 will be another loss year for Ontario producers. After strengthening somewhat early in 1972, prices fell again in February. For the week ended February 26, the weighted average price for all grades was 17 cents per dozen; the lowest price since July, 1971. Many reasons are given for these continuing low prices, including a major improvement in flock productivity as a result of Mareck's disease vaccine and an over-expansion of production facilities in the industry, in anticipation of the introduction of supply control measures or of a continuation of the high 1969-1970 prices. Considering the accumulated losses of producers from 1970 and 1971, another year of losses will certainly force many producers out of egg production, unless the oversupply situation can be corrected and producer prices improve early in the year.

CHAPTER IV

CAUSES OF PROBLEMS FACING EGG PRODUCERS

It is clear to this point that many egg producers have experienced low and highly variable returns from egg production for many years. Before discussing solutions to the income problems of producers, it is essential to examine in more detail the causes of these problems. Although there are many interrelated factors influencing producer incomes, they can all be related to three main causes: changes in demand for eggs, changes in the supply of eggs and methods used for price determination.

THE DEMAND FOR EGGS

It is important at the outset to define what is meant by the term 'demand', since its meaning in economic analysis is significantly different from its meaning in popular usage.

The quantity of eggs that consumers in a market area are prepared to buy at any given time depends on price. The higher the price charged, the smaller the quantity consumers are willing to purchase. This rather definite relationship between the quantities that would be purchased at alternative prices is called the 'demand schedule'.

It is known from studies and common experience that the quantity of eggs consumers are prepared to purchase is very insensitive to price. In economic jargon, the demand for eggs is said to be very 'price inelastic'. The precise meaning and implication of this can be shown best by means of an example. Suppose that during January, producers supply the Ontario market with eggs at a weekly rate of 100,000 cases, which consumers are prepared to purchase at a retail price of 50 cents per dozen.

If during February, production, and hence, the quantity offered for sale to consumers increases by ten percent to a weekly rate of 110,000 cases, retailers will have to reduce the price by about 30 percent, from 50 to 35 cents per dozen, in order to encourage consumers to purchase this larger quantity. The important thing to understand from this illustration is that the 30 percent reduction in price and the increase in total or per capita consumption of ten percent was not due to a change in 'demand'. In both months, consumers would have been prepared to purchase each week either a total quantity of 100,000 cases at 50 cents per dozen, or 110,000 cases at 35 cents per dozen. The combination of quantity and price actually purchased in January as compared to February is caused, not by a change in demand but a change in the supply, the quantity being offered for sale to consumers. The 'demand' for eggs at any one time, therefore, is not some unique quantity at a specific price, but rather a whole series of alternative price-quantity combinations. The particular combination that materializes in any one week is determined by the quantity of eggs being offered to consumers.

It is now possible to define what is meant by a change in 'demand' for eggs. This situation occurs when there is a change in the value that consumers place on eggs compared to other foods. A decline in 'demand' for eggs, which generally occurs slowly over a period of years, is quite difficult to measure precisely. In order to get a full appreciation of the magnitude of the decline, it is necessary not only to look at what happened to per capita consumption, but also what happened to prices. The decline in 'demand' means that consumers now are prepared to purchase particular quantities of eggs at lower prices than they would have previously.

Whether the decline in 'demand' is reflected in per capita consumption or in price depends on what changes take place in the supply of eggs offered to consumers. The marketing system as presently organized does not anticipate declines in 'demand', and in any case, is poorly equipped to adjust egg production. The initial effect of a decline in 'demand', therefore, is not shown in a reduction in per capita consumption but primarily in lower prices paid by consumers and received by producers. Eventually, lower prices may encourage producers to cut back egg supplies, and at that time, per capita consumption will decline.

Two important developments took place in connection with the 'demand' for eggs during the last decade:

(1) A considerable decline in the rate of population increase;

(2) A decline in consumer 'demand' for shell eggs.

The rate of population increase in Canada has fallen from 1.9 percent per year in 1967 to 1.4 percent in 1970-71. In Ontario, the rate increased to a high of 2.7 in 1966-67 and has since declined, with large year-to-year variations, to 2.3 percent in 1970-71. In Quebec, which has been a market for about 20 percent of Ontario's eggs, the rate declined from 2.1 percent to .3 percent. (Table 7)

While these changes in rate of population growth appear rather small, over a period of several years they can result in significant reductions in retail prices, unless the expansion in egg supply is kept in line with the reduced rate of population growth.

The evidence indicates that per capita 'demand' for eggs (including processed egg products) declined by about 30 percent from 1956-60 to 1966-70, with most of the decline occurring during the early 1960's. Only one-third of this reduction in 'demand' is reflected in per capita consumption, which fell sharply from 23.9 dozen during 1956-60 to 21.9 dozen during 1961-65, and more slowly to 21.3 dozen per person per year during 1966-70.

TABLE 7

YEARLY RATE OF INCREASE IN POPULATION
OF CANADA, ONTARIO & QUEBEC
1961 TO 1971

Year	Canada	Ontario	Quebec
		----------percent----------	
1961-62	1.9	1.8	2.1
1962-63	1.9	2.0	2.0
1963-64	1.9	2.3	1.9
1964-65	1.8	2.4	1.8
1965-66	1.9	2.5	1.7
1966-67	1.9	2.7	1.5
1967-68	1.7	2.2	1.0
1968-69	1.5	2.0	1.0
1969-70	1.5	2.5	.5
1970-71	1.4	2.3	.3

Source: Dominion Bureau of Statistics,
Catalogue Number 91-201.

TABLE 8

COMPARISON OF PER CAPITA CONSUMPTION
OF EGGS IN CANADA AND THE UNITED STATES,
1966 TO 1969

	United States	Canada	Difference
	----eggs/capita---		-percent-
Shell Eggs	286	243	18
Processed Eggs	32	11	191
Total	318	254	25

Sources: United States Department of Agriculture.
The Egg Products Industry, Structure, Practices and Costs. Marketing Research Report No. 917, 1971.

Canada Department of Agriculture, Poultry Market Review (various issues).

The remaining two-thirds of the decline in 'demand' has been reflected in reduced retail prices. On a current dollar basis, prices declined during the early 1960's, but recovered during the last five years. However, when prices are deflated by the consumer price index to take account of the gradual increase in prices of all goods and services purchased by consumers that took place during this period, the retail price of eggs in Canada, in real terms, fell from an average of 59.5 cents per dozen during 1956-60 to 48.4 during 1961-65, and averaged at that level during the 1966-70 period. (Table 9)

Reasons for Decline in Consumer Demand

The reasons for the decline in consumer 'demand' for eggs are very poorly understood, since very little research has been done in this area particularly in Canada. A large number of factors are likely to be involved. Experience in the United States is helpful in understanding these changes, since the same forces have been operating there, although per capita egg consumption has been much higher than in Canada. From 1966 to 1969, per capita consumption in the U.S. was 25 percent higher than in Canada. Shell egg consumption was 18 percent higher, while consumption of eggs in processed form is three times as high as in Canada. (Table 8)

Granted these significant differences, the decline in 'demand' for eggs has followed similar patterns in both countries. Surveys in the United States indicate that about 58 percent of all eggs consumed are eaten at breakfast in the home, while about 17 percent are used in home baking. Twelve percent are eaten in restaurants and 11 percent are used in egg products. Only two percent are used at home at lunch and dinner.

TABLE 9

PER CAPITA CONSUMPTION AND RETAIL PRICES OF EGGS, CANADA, 1941 TO 1970

Year	Consumption	Retail Price, A Large*
	--dozen/ capita--	--cents/ dozen--
1941-45	21.5	44.0
1946-50	20.7	55.4
1951-55	22.6	63.4
1956	24.0	63.2 (68.6)
1957	25.0	56.0 (59.1)
1958	24.2	57.9 (59.5)
1959	23.3	54.4 (55.3)
1960	23.0	54.5 (54.8)
1956-60	23.9	57.2 (59.5)
1961	22.6	56.3 (56.3)
1962	22.5	53.2 (52.6)
1963	21.5	58.4 (56.7)
1964	21.6	50.7 (48.4)
1965	21.3	54.3 (50.6)
1961-65	21.9	54.6 (48.4)
1966	20.5	64.1 (57.5)
1967	21.2	54.1 (46.9)
1968	21.3	55.6 (46.3)
1969	21.7	61.8 (49.2)
1970	21.8	54.4 (41.9)
1966-70	21.3	58.0 (48.4)

*Figures in brackets are retail prices deflated by the consumer price index (1961=100), to indicate changes in egg prices in relation to prices of all goods and services used by consumers.

Source: Canada Department of Agriculture, Poultry Market Review (various issues).

The decline in 'demand' for eggs is evidently closely related to the changing eating habits which are associated with factors such as:

a) changes in occupation to less physically demanding jobs, and hence, lighter breakfasts;

b) an increasing number and proportion of homemakers are working, and have less time to prepare breakfasts - this is aggravated by increasing urbanization, and increasing commuting time between home and work;

c) there has been a great increase in the weight and health consciousness of consumers, as related to foods with high contents of animal fats, including eggs;

d) eggs have had to compete with an increasing variety of heavily advertised, more 'instant' breakfast foods.

While a significant part of the decline in 'demand' for eggs is the result of changing consumer life styles and working conditions, it should be realized that the marketing system is not unbiased, but allows producers of foods considerable scope to influence consumer spending habits. Egg producers have not been prepared in the past to become actively involved in efforts to increase the 'demand' for eggs and egg products. Unless a more aggressive approach is taken, consumer 'demand' for eggs will continue to decline with serious consequences for egg producers.

Processed Egg Products

Many of the factors which have been associated with a decline in 'demand' for shell eggs have increased 'demand' for processed egg products, particularly in baking mixes and prepared meals eaten at home.

The 'demand' for eggs could be stimulated by various promotional activities, developing new uses and forms of preparation, educating consumers about the nutritive and economic value of eggs in diets and other similar measures. It is evident, however, that in the future the 'demand' for processed egg products will increase significantly, partly at the expense of shell eggs. For this reason, a marketing program for eggs should pay particular attention to efforts that will encourage the development of processed egg products. In the past, this industry was the residual user of eggs, using undergrades which were unsuitable for the shell egg market, supplemented by seasonal surpluses of grade A eggs. It is quite evident that, due to the upgrading of quality standards for egg products and the reduction in supply of undergrades because of improved production practices, these traditional sources of supply for processed egg products will not be sufficient to meet the growing 'demand' for processed egg products. New procedures will have to be developed for allocating the egg supply between markets for shell and the processed egg products.

THE SUPPLY OF EGGS

In supply analysis, it is useful to distinguish between short-term changes (day-to-day, week-to-week) and longer-term changes, usually covering one or more years. Issues related to short-term changes in egg supply are discussed in connection with the evaluation of the egg pricing mechanism elsewhere in this report. Here, attention is concentrated on the longer-term changes in supply. As has been indicated, egg producers as a group cannot significantly increase egg production on short notice. There is a lead time of at least seven months, the period necessary to hatch and raise chicks to laying age.

Year-to-year changes in egg supply are, therefore, most appropriate for this aspect of the analysis.

The United States Market

Historically, the egg industry on the North American continent has been trapped in a vicious cycle of boom-or-bust. Good prices have inevitably led to flock expansion and overproduction, which in turn, have resulted in very low prices. This eventually forces considerable production cut-backs and rising prices, and the cycle repeats itself. This more or less cyclical pattern can be observed best in the United States, which is self-sufficient in egg production and where egg prices are not influenced significantly by conditions, particularly prices, prevailing in other countries.

During the early 1960's, as shown in Table 10, this relationship between supply (as measured by consumption per capita) and price was obscured by the sharp decline in 'demand', related to widespread publicity linking animal fat consumption with heart disease . The relationship is most evident starting in 1966-67, when a 3.2 percent increase in per capita supply was associated with a 17.2 percent decline in retail price, and a even larger (20.2 percent) reduction in farm prices. A moderate cut-back of .9 percent the next year led to increases of 6.7 percent in retail prices and 9.0 percent in farm prices. The same percentage reduction in the following year brought forth even larger increases in retail and farm prices. Very moderate increases in supply during 1970 and 1971 resulted in severe price declines, which have continued into 1972.

TABLE 10

PER CAPITA CONSUMPTION OF EGGS AND FARM & RETAIL PRICES OF EGGS, UNITED STATES, 1960 TO 1971

Year	Consumption Per Capita		Farm Price (All Grades)	Year-to-Year Change		Retail Price (Grade AL)	Year-to-Year Change	
	-no.of eggs-	-% change-	-¢/doz.-	-%-	-¢/doz.-	-¢/doz.-	-%-	-¢/doz.-
1960	335		36.1			57.3		
1961	328	-2.1	35.6	-1.4	- .5	57.3	0	0
1962	327	- .3	33.8	-5.1	-1.8	54.0	-5.8	-3.3
1963	318	-2.8	34.5	+2.1	+ .7	55.1	+2.0	+1.1
1964	318	0	33.8	-2.0	- .7	53.9	-2.2	-1.2
1965	314	-1.3	33.7	- .3	- .1	52.7	-2.3	-1.2
1966	314	0	39.1	+16.0	+5.4	59.9	+13.7	+7.2
1967	324	+3.2	31.2	-20.2	-7.9	49.6	-17.2	-10.3
1968	321	- .9	34.0	+9.0	+2.8	52.9	+6.7	+3.3
1969	318	- .9	40.0	+17.6	+6.0	62.1	+17.4	+9.2
1970	319	+ .3	37.6	-6.0	-2.4	61.4	-1.1	- .7
1971	321	+ .6	32.0	-14.9	-5.6	55.1	-10.3	-6.3

Source: United States Department of Agriculture. Poultry & Eggs Situation. November, 1971.

The Canadian Market

This more or less cyclical supply-price relationship also exists in Canada, but is disturbed from time to time when prices here are drawn up or down with the United States prices. This relationship should be explained briefly.

Canadian egg producers enjoy tariff protection of 3½ cents per dozen on shell eggs, as well as a transportation and handling advantage of about 1½ cents over U.S. producers, when supplying the local market. In other words, Canadian prices for shell eggs of the same quality can be above those in the U.S. by up to five cents (expressed in Canadian currency), without attracting imports. Prices at that level are often said to be on an 'import basis'.

The U.S. tariff on shell eggs is also 3½ cents. Added to transportation and handling costs of 1½ cents, the U.S. market becomes attractive for Canadian eggs only when prices here are more than five cents below those in nearby U.S. markets. Our prices would then be on an 'export basis'.

Within this range of about ten cents between the import basis and the export basis, the price of eggs responds largely to local conditions. However, when prices here are close to either the export or import basis, and prices in the U.S. change by a significant amount, prices in Canada should generally follow.

At this stage, it is sufficient to state that although the marketing system often fails to take full advantage of such situations the level of egg prices in Canada has frequently been influenced by large changes in U.S. prices, as well as by egg supply conditions in Canada. This is the case despite the fact that year-to-year changes in egg supply in Canada also generally are much larger.

Supply changes in Canada have not been consistent in the same direction as in the United States, as shown in Table 11.

Effect of Producer Decisions on Egg Supply

The basic reason for the year-to-year variation in egg supply is the fact that the large number of producers acting individually have no rational basis for making production decisions that would result in a more stable supply. This is the case despite the fact that situations of unusually low prices can be predicted sufficiently far in advance to enable producers to take corrective action before oversupply reaches serious proportions. At such times, producers are advised by government agencies and through associations and trade publications to cut back voluntarily. If a large proportion of producers were willing at those times to make the moderate reductions in egg production necessary to prevent prices from dropping seriously, they would benefit greatly in the form of much higher, and stable net revenue. However, it is evident, judging from experience, that individual egg producers have not been able to practice such 'supply management' on a voluntary basis in time to avoid seriously depressed prices. They have been prepared to cut back production only after having been forced to accept such low prices that continued production became decidedly unattractive. In fact, at that stage, there is a strong tendency for producers to over-react by reducing output too much. This forces prices up to excessively high levels, encouraging expansion and the vicious cycle continues.

The conclusion that individual producers do not make production decisions that are necessary to stabilize production and prices is not intended to be critical. Producers face a real dilemma. Many producers have commitment for supply of eggs which they would hesitate to break.

TABLE 11

YEAR-TO-YEAR CHANGES IN EGG SUPPLY FOR UNITED STATES, CANADA, AND SELECTED PROVINCES, 1960 TO 1971

Year	Que.	Ont.	Man.	B.C.	Canada	United States
	----------percent----------					
1960-61	11.3	-2.5	-17.2	7.1	-3.0	3.2
1961-62	7.7	2.0	6.6	2.3	2.1	1.7
1962-63	-5.5	-6.7	3.1	2.5	-3.4	.3
1963-64	8.9	3.4	17.1	4.4	4.9	3.3
1964-65	10.8	-3.4	.8	1.2	- .3	1.4
1965-66	-4.4	-7.2	- .3	4.4	-3.1	1.9
1966-67	6.4	7.7	15.1	14.3	6.8	5.6
1967-68	-1.3	4.6	5.8	2.1	2.8	- .9
1968-69	-2.8	1.4	4.2	3.2	1.3	.1
1969-70	1.5	4.4	14.1	.4	7.4	2.0
1970-71	1.1	4.3	-5.6	.7	1.1	N.A.

Sources: United States Department of Agriculture, Economics Research Service. Poultry & Eggs Situation. June, 1971.

Dominion Bureau of Statistics, Production of Poultry and Eggs, Catalogue Number 23-202.

Others have regular financial commitments which must be met. Any one producer knows that a production cut-back he might make by itself would have no effect on price. He would hesitate to reduce production unless he had some assurance that at least the majority of other producers would join him, so that the combined reduction in egg production would be sufficient to maintain or improve prices. In addition, producers who would reduce production at such times realize that, while they would likely benefit in the future by preventing very low prices from occurring, they would gain considerably less than would producers who did not reduce output. The latter would enjoy more benefits, while incurring none of the costs.

This is the crux of the supply instability issue. Experience in Canada and elsewhere with eggs and many other agricultural products provides abundant evidence that it is unrealistic to expect a large number of producers to reach a consensus on production restraints on a voluntary basis before a serious surplus has developed.

There is considerable evidence that the severity and duration of low egg prices has become more extended and that this is likely to become worse in the future. During the last ten years, there has been a rapid adoption of new technology in egg production to more mechanized, larger-scale, more specialized units. Egg producers are now much more reluctant to cut back egg production, since in many cases eggs are their principal source of income, and their labour and capital have no worthwhile alternative uses.

Effect of Supply Company Decisions on Egg Supply

Evidence obtained during the course of this Inquiry also made it clear that expansion in egg production has been promoted quite vigorously by companies who supply goods and services to egg producers, including some hatcheries, manufacturers and distributors of buildings and equipment for egg production, grading stations and especially feed manufacturers.

It is clear that one hatchery and several large feed companies, following carefully planned, long-term market expansion programs, have encouraged expansion in egg production capacity, starting in the early 1960's using production contracts and the extension of credit on feed and pullets as sales techniques. Understandably, many of their less aggressive competitors eventually felt compelled to adopt these new sales techniques to maintain or regain their share of the market. While several of these firms may be experiencing considerable financial difficulties, there is no doubt that most of the undesirable consequences associated with these aggressive expansion programs have been conveniently transferred to egg producers in the form of seriously depressed incomes and large debts.

Quota Scare

Finally, brief evaluation should be made of the 'quota scare' as a factor contributing to the oversupply, since this was alluded to frequently at the public hearings. There can be no doubt that the possibility of quotas being implemented in the egg industry in Ontario has had some effect on supply. Several producers appearing at the hearings admitted having constructed additional facilities earlier than originally planned in order to secure a larger quota.

It is difficult to assess the significance of this factor, since the little factual data that is available is obscured by the large number of rumours that were spread and the accusations that were made by the protagonists in the prolonged verbal battle that has accompanied the attempted development of a marketing plan.

A comparison of egg production trends in Ontario and other provinces would suggest that 'quota scare' has not been a significant contributing factor to the oversupply situation. Ontario's share of egg sales in Canada declined steadily from 43.6 percent in 1962 to 38.5 percent in 1963, increased gradually during the next few years to 39.3 percent in 1969, declined to 39.3 percent in 1970 and increased to 39.8 percent in 1971.[10] 'Quota scare' may have accounted for part of the increase in share from 1966 to 1971, but it would be difficult to isolate this from other factors that evidently also encouraged producers in other provinces, particularly in Manitoba, to increase their share of egg sales during that period. 'Quota scare' cannot be considered to have been a contributing factor in these provinces.

PRICE DETERMINATION

In addition to supply and consumer demand, egg prices realized from time to time may be influenced considerably by the conditions and arrangements under which eggs are exchanged and prices are established. In order to assess the impact of this factor on income problems experienced by Ontario egg producers, it is necessary, first of all, to state briefly what egg producers can reasonably expect a pricing mechanism to accomplish.

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[10]Dominion Bureau of Statistics, Production of Poultry and Eggs, Catalogue Number 23-202.

Functions of the Pricing System

The pricing system can be evaluated by assessing its performance with respect to the following functions:

(1) How it facilitates the orderly and timely flow of all eggs produced and offered for sale by producers from day to day into the various uses (carton eggs, institutional, processed egg products) at prices that reflect fully consumer demand for each use.

(2) How it allocates the income obtained from the sale of eggs among all participants in the production-marketing system in such a way that all efficient operators (graders, truckers, retailers, producers) are ensured an adequate and reasonably stable level of return in relation to services provided by each participant.

It should be pointed out that it is quite unreasonable to expect the system to accommodate the additional function of encouraging and directing egg producers to make appropriate supply adjustments. It should be evident, at this stage, that for all practical purposes a producer cannot make significant short-run changes in supply that do not also have long-term implications. In order to make intelligent decisions, a producer would have to estimate the effect of production decisions on income flows in the future. Evidently future, and not current, prices are required. For reasons discussed previously, a producer acting individually cannot reasonably be expected to make informed decisions related to changes in supply.

The present pricing methods being used in Ontario are basically quite similar to those in effect in other areas of North America, where producer groups do not determine prices. It has been in use for many years, with minor modifications, despite quite dramatic changes which have occurred in production and marketing practices.

During the last decade, these pricing arrangements have come under increasing criticism, mainly by producer groups.

Egg Distribution

The egg distribution system is organized around each of the larger population centers, where most of the consumers in the area are found, food retailers have their distribution centers and packers and independent wholesaler-distributors (and frequently graders) operate their facilities. The egg distribution system in each of the population centers is relatively self-sufficient, and with minor exceptions, very little trade takes place among them.

In each population center, the egg distribution system again is fragmented into a number of production-marketing systems, each centered around a grader, and which operate alongside one another with very little interaction or trade taking place. Groups of producers are rather permanently and inflexibly aligned to the grading station, which controls access to the system by operating egg pick-up routes in the surrounding farming areas. Delivery of eggs by producers themselves is discouraged or not permitted. Each egg grader, in turn, is rather permanently aligned with one or more regular customers, to whom a large proportion of eggs are shipped each week.

There are at least two important reasons for the development of these rather inflexible arrangements.

(1) With modern, more automated grading equipment, efficiency requires continuous operation near capacity. To reduce shutdowns, large lots are desirable. To ensure high quality, eggs should be refrigerated at the farm and in transit, as well as at grading stations.

In order to allow high speed, mass candling, graders need to know and influence the conditions under which eggs are produced and handled, including the condition of production facilities, feeding practices, breed and age of flock. All of these factors influence the quality and cost of grading eggs. It is evident that modern grading practices, and graders' interest in keeping their costs down, result in a much closer, permanent relationship of egg producers with a specific grading station, with a consequent reduction in the independence of producers with respect to many production-marketing decisions.

(2) A very large proportion of eggs are packed in retailer-brand cartons, with the retailing firm either owning or contracting with grading stations, which are provided with a supply of cartons. Evidently this makes it necessary for retailers to either operate stations or to make rather continuous arrangements with independent graders to obtain their requirements of cartoned eggs, on a weekly or more frequent basis.

Pricing Methods

The existence of these rather firm and permanent supply arrangements has important implications when related to pricing methods being used in the industry. Transactions between producers and graders generally are based on a formula. By oral agreement a grader will pay a producer a price based on the prevailing wholesale price the day eggs are received at the station. In most cases, the magnitude of discounts under this base price does not change from week to week (with some notable exceptions), although it varies between stations, and among producers shipping to any one station.

In fact, competition, to the extent that it is operative at this level, primarily influences the magnitude of the discount, rather than the price level of eggs itself. Prices for sales between graders and retailers are established in a similar manner, at least for most carton eggs, and for a large proportion of loose pack eggs as well. Food retail chains have an oral agreement with a number of graders to pay for eggs in store brand cartons at a rather fixed discount or premium, in relation to the wholesale quotation.

In view of these pricing arrangements, it becomes critically important that the base prices be representative of total supply and demand conditions. There is considerable evidence this is not usually the case.

The key pricing base in the egg marketing system in Ontario appears to be the daily 'loose egg' quotation, although considerably less than ten percent of total egg marketings are directly priced on this basis. In fact, the large majority of transactions are priced in relation to the carton price. However, a review of daily loose and carton price quotations during the years 1969-71 shows beyond doubt that practically every significant movement in the carton price, up or down, is preceded by several days by a movement of the loose price in the same direction. This observation was verified by officials of the Canada Department of Agriculture, responsible for the collection and calculation of the carton prices. It was frankly admitted that on occasions they edit the prices reported by graders in order to ensure that the carton price keeps moving in relation to the loose price. This would be done by omitting reported prices which are considered to be out of line with most others, and more particularly when the loose price moves to within one cent of the carton price.

There is no doubt that this editing from time to time has encouraged movement in the level of the carton price quite considerably, both up and down. Without such editing, the carton price would have been steady for longer periods of time followed by much faster and larger changes to a new level. The reasons for this is that most of the grading stations which report prices and quantities sold follow a certain reporting pattern; typically they report a price that bears a rather fixed relationship to a previous carton price quote. For example, one grader-food retailer prices only one per week, generally at a premium of four cents over the Friday carton quote; while another prices twice weekly, and at a discount of two cents. Given these fixed relationships, the few grading stations that use a more flexible approach to pricing are in a position to influence the direction of the movement initially by a substantial change in price reported. Once the carton price starts to change, more changes in the same direction are bound to follow in succeeding days, because of the 'formula' pricing used by many grading stations. When their 'base price' changes, the price reported by them will change accordingly. Price changes in the carton quote occur with some regularity due to the inability to account satisfactorily for certain marketing practices. For example, when a grader, who systematically reports prices above the carton quote, sells or ships eggs to stores or warehouses every other day, his price is included in the calculation only on days when shipments are made. This, by itself, causes the average carton price to decline on days when no shipments are made although a price reduction is evidently uncalled for.

This rather harsh evaluation of the carton price quotation is not intended to be critical of the personnel charged with this unenviable task. They were found to be knowledgeable and conscientious. Over the years, they have been exposed to persistent and often severe criticism, much of it undeserved. While improvements have been made in their approach, it is evident that this method is fundamentally not adequate to deal in a satisfactory manner with the problems related to pricing.

Underpricing

A serious shortcoming of the present system is that it results in a level of prices that, on many occasions, could be significantly higher, without resulting in substantial surpluses. The primary cause for this condition is that, as presently organized, there generally is no strong pressure on the marketing system to secure the highest possible price from the available local and export demand for the supply of eggs that is offered from time to time.

Marketers, both graders and retailers, who can influence prices, are primarily interested in having prices established in such a way that they can control their margins to a satisfactory degree. The base pricing method generally accomplishes this. In addition, retailers will avoid setting prices so high that surpluses will build up, since this would make their retailing process much more complicated. It is much more consistent with mass merchandizing techniques, particularly in this age of discounting to 'underprice' eggs. In view of the very inflexible consumer demand, retailers can sell a given quantity at a price range of at least five cents.

In the case of at least one chain store, which appeared at the Inquiry, wholesale and retail prices were determined at the head office, while each store manager ordered his egg requirements directly before retail prices were known. Evidently the quantities ordered were not closely related to retail prices charged.

More generally, the very large changes that occur in the carton quotation, over a period, cannot reasonably be explained by changes in the demand for, or the supply of, carton eggs. The demand for eggs generally varies very little from week to week, granted some exceptions noted previously. The supply of cartoned eggs cannot be a significant factor either. With few exceptions, graders carton only the quantity of eggs necessary to fill orders, and generally they have significant surplus quantities which are sold in loose pack, but which can quickly be cartoned if additional supplies of carton eggs are needed. It would be quite unnecessary to increase the carton price; all that is necessary is to increase the carton order.

Finally, the most conclusive evidence that on occasion eggs in Ontario have been considerably underpriced is demonstrated when a strong price rise in the United States pulls prices in Ontario up as well. In recent years, this was most evident during the period December 1969 to February 1970, but has occurred on at least four other occasions since that time although for shorter periods.

The rise in prices at those times cannot be explained by reductions in egg supply in Canada, since supply had increased in both years. While exports took place, the quantities involved were not sufficient to reduce quantities available for local demand to the extent necessary to account for the large price increase.

It may be added at this stage that the marketing system has generally failed to take full advantage of export opportunities since, while some exports are made, prices in Canada on many occasions fail to rise up to the export basis as much as five cents per dozen. This is probably due to the fact that a large proportion of graders are not interested in exporting even when prices are very attractive. They appear to be content to continue supplying their regular customers.

Price Variations

A second undesirable feature of the present pricing method is that it allows frequent, abrupt, and on occasion, very large price changes from day to day that serve no apparent useful purpose. This causes unnecessary additional pressure on producers, particularly those who are in the weakest bargaining position. The wide range of prices at which eggs are traded at retail and wholesale causes a wide range in producer prices.

In this respect, the position of the three retail food chains which operate grading stations is particularly important. Evidently when eggs are transferred from the grading division to the wholesale division of a chain, there is no sale in the ordinary sense of the word. The price at which transfer is made and reported for inclusion in the carton quote can be selected quite arbitrarily since it is merely an accounting exercise. This situation could be seriously abused although, in recent years at least, all three firms have reported prices which bear a rather fixed relationship to the carton quote, in one case at a discount of two cents, in another at a premium of about four cents and the last one at about par.

An important reason for the day-to-day price instability is that there is no effective co-ordinating agency to balance temporary, small surpluses and shortages between markets and among graders. A large proportion of eggs are committed to flow through a number of rather isolated sub-markets from producer to grader to retailer. Evidence given to the Inquiry indicated that the quantity of eggs received at each of the eleven grading stations, which supply the bulk of Metro Toronto's carton egg requirements, varied quite widely from week to week, while the overall supply was quite stable. In the absence of an effective clearing house to balance temporary surpluses and shortages among these graders, there is a tendency for those with surpluses to 'feature' eggs at low prices or to dump the excess on the loose egg market, either way depressing prices. Graders who are temporarily short of eggs have difficulty obtaining additional supplies of acceptable quality on short notice, and in any case they are reluctant to buy loose eggs for fear of driving up prices. Instead, they may try to make do with present supplies, or bring in United States eggs, even at considerable extra cost. More effective co-ordination between grading stations through an agency would balance supplies between stations and would make it possible to stabilize prices for longer periods of time.

CHAPTER V

CONCLUSIONS AND RECOMMENDATIONS

In order to draw meaningful conclusions about problems in the egg industry and to approach solutions to these problems, it was necessary to establish a fundamental set of principles on which to base my decisions.

I therefore considered the following objectives in drawing conclusions and recommendations:

(1) To improve and stabilize the incomes of Ontario egg producers;

(2) To encourage the largest possible number of efficient producers to participate in egg production on an equitable basis;

(3) To provide a regular supply of eggs of good quality to consumers at reasonable prices.

Based on my analysis of the nature and causes of problems facing egg producers, I have concluded that action will have to be taken in several different areas to approach solutions to these problems.

* Methods of encouraging changes in the financing and control of egg production;
* Methods of expanding consumer demand and of realizing existing demand to a higher degree;
* Methods of managing the supply of eggs more effectively;
* Methods of increasing the efficiency of marketing and pricing of eggs.

FINANCING AND CONTROL OF EGG PRODUCTION

In the course of the Inquiry, it became evident that many of these problems were related to difficulties in financing egg production units. It was demonstrated that the incomes of egg producers have been highly variable from year to year and have on average been quite low. As a result, many farmers have been unable to take the risks involved in egg production and have turned to contracts offered by supply companies. When prices are reasonable, returns under these contracts are lower than those of independent operators; but producers have been prepared to accept lower incomes in return for income stability.

Many of those producers who are not involved in contracts are unable to finance feed and pullets privately, or through banks or other lending institutions and have become increasingly dependent on supply companies to extend credit for these purchases. These developments have been encouraged by feed companies and hatcheries through the aggressive use of contracts and extended credit as marketing tools in maintaining or increasing their sales volumes.

Problems of Organization in the Industry

Contracts and credit extended by supply companies have had important implications for the organization of the egg industry. Control of a large part of the industry is passing from independent farmers to a few large companies and decision-making has become highly centralized in their hands, to the point where these companies have ceased to be mere suppliers of goods and services to farmers but have become large-scale producers of eggs themselves.

Although these developments are perfectly legitimate efforts by supply companies to maximize their profits, they have several highly undesirable effects on the industry.

(1) The cost of producing eggs is no lower, and may very well be higher, on egg farms controlled by supply companies than on owner-operated farms. Farmers on contract or those who use company financing are forced to use feed and pullets provided by these companies, and they have no opportunity to bargain for lower prices for these items. It has been demonstrated that farmers can significantly reduce their production costs by mixing their own feed with grain grown on the farm or purchased locally instead of purchasing feed, but relatively few farms do this because they do not have the necessary funds and must depend on commercial feed manufacturers for assistance in financing their operations.

(2) The dependence of most large egg production units on purchased feed has meant that egg production has, to a very large extent, become a highly specialized operation completely separate from the land base and feed production. This trend has caused and will continue to cause serious pollution problems for intensive egg operations and under-utilization of poultry manure as a fertilizer for crop production. The separation of egg production from feed production has been a major cause of income instability for egg producers; farmers who use purchased feed have lower margins per dozen after their cash expenses are paid and changes in egg prices affect their incomes more seriously than it does those of farmers who produce their own feed.

(3) The gradual concentration of ownership or decision-making into the hands of relatively few, large, diversified companies provides unfair competition to independent producers in the short run. These companies are in a better position to produce eggs at a loss for extended periods of time because this is usually only a small part of their total operation and they can use the returns from other branches as a cushion.

As independent operators continue to be forced out of the industry or to come under the control of large corporations over the years, there is little doubt that these firms will be in a position to recoup losses and earn attractive profits by increasing prices.

Hence, this trend towards gradual concentration of control in the hands of relatively few, large companies which, as has been indicated does not result in more efficient production, is not likely to be in the long-term interest of consumers.

(4) Egg production controlled by large corporations conflicts with general goals of the farm community as related to independence of decision-making and control of the management of their own farms. While I recognize that central co-ordination of the marketing function is necessary to meet the objectives of marketing efficiency and adequate returns to producers, a producer-controlled organization can accomplish these goals while still allowing individual farmers to operate independently as far as production decisions are concerned.

Adjustments in the Industry

These problems cannot be solved by any one program but must be approached through a combination of interrelated programs, some of which deal with other aspects of the egg production and marketing system in addition to financing and credit.

(1) Improve and stabilize returns to producers.

Many of the problems in financing egg operations can be overcome by improving and stabilizing returns. With incomes that are less variable from year to year, producers can finance their own operations with a lower degree of risk and can match repayment schedules on loans to (more regular) income flows from their operations.

More stable returns in egg production should also encourage banks to extend credit to farmers on more favourable terms than at the present time. Under these conditions, producers will be more able to bear the risks in managing their operations and will have less need to enter into contracts or depend on supply companies for credit.

(2) Ensure that the right to market eggs is given to producers themselves and not to companies who supply these producers with inputs.

Any marketing plan that manages supply necessitates the allocation of egg production among producers through one means or another. In this respect, critical decisions must be made as to criteria for allocation of egg production. The present system where market conditions allocate production has tended to concentrate production in the hands of supply companies, even though individual producers own the facilities and provide the labour for the operation. Since egg production controlled by supply companies is probably less efficient than on owner-operated farms, the only logical reason for this development is that supply companies have had easier access to capital for financing egg production. If it is considered desirable to encourage egg production on owner-operated farms, integrated as far as possible with feed supplies, then provisions must be made to allocate to producers the right to produce in future, because they are individually unable to compete with supply companies for access to the market.

In previous Canadian marketing legislation regulations have been developed to accomplish this objective by ensuring that the proceeds from sale of the product are received directly by the individual producer and not by other parties with whom the producer may have entered into contract agreements or financing arrangements.

(3) Place a limit on the maximum amount of product that can be produced in future by any one individual or corporation.

Once the size of an egg production unit has reached a certain optimum level, there is no significant reduction in the cost of producing eggs if units are increased beyond this size. In the case of a specialized egg farm most of the efficiency in production has been achieved when the unit becomes large enough to require the labour of two or at most three men. With modern production equipment this could be a flock of 30,000 to 45,000 birds. Beyond that size, it is unlikely that the cost of producing eggs will be lowered and it may very well be higher for very large operations. Of course, farmers who grow and process their own feed can have efficient operations with smaller flocks than those who depend on purchased feed because part of their labour can be utilized efficiently in crop production and feed preparation.

Given this relationship between the size of any one operation and production costs, it is clear that eggs can be produced at least as cheaply on medium-sized, owner-operator farms as on very large operations, and at considerably lower cost if these medium-sized operations are integrated with their own feed supplies. It is a desirable policy objective to encourage the largest possible number of farmers to integrate their feed supplies so as to reduce egg production costs and reduce their dependence on feed manufacturers. To encourage this adjustment and to discourage the expansion of specialized operations to a very large size, a limit should be placed on the maximum amount of product that can be produced by any one individual or firm. It is not suggested that egg production units already larger than such a limit be reduced in size.

(4) Provide egg producers with an adequate credit service as an alternative to contracts and credit offered by supply companies.

The alternatives outlined above are at best only partial solutions to the problem of financing independently-operated egg production units. If the development of owner-operated farms of medium size and with integrated feed supplies is to be encouraged, then provision must be made to allow egg farmers to obtain adequate credit to finance buildings, equipment, pullets, feed mixing and crop production facilities. There is no doubt that producers would prefer to operate independently of supply companies if they could obtain adequate credit for their operations. In a recent survey of poultry producers in the province of Quebec,[11] it was found that 40 percent of farmers who signed contracts had done so because they needed the money, security or price stability. Two-thirds of the farmers would stop contracting if they could obtain the credit they needed from sources other than supply companies. This study also found that independent producers made significantly higher profits in poultry production during the 1964-66 period, even after deducting their extra capital costs (because they did not get the capital with the feed).

In order to provide adequate credit facilities for egg producers, these facilities must meet a number of requirements:

a) producers must have access to capital for investment based primarily on repayment capacity and secondly on the security of the loan;

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[11]Quebec Royal Commission on Agriculture. Reported in Farm and Country, January 26, 1971.

b) provision of long-term and short-term credit must be co-ordinated by an agency that gears repayment schedules to available income flows;

c) repayment of loans must be spread over a sufficiently long period of time that the operator does not have high repayment rates on borrowed capital while his business is expanding;

d) professional credit counselling must be provided to assess the management ability and capital requirements of farmers and to reduce the risk of borrowing to both lenders and producers.

The most important agencies serving credit needs of farmers at the present time, other than supply companies of course, are the Farm Credit Corporation in the public sector, and the commercial chartered banks in the private sector. A detailed analysis of the deficiencies of these agencies in serving farmers' credit needs is beyond the scope of this report. Generally, the Farm Credit Corporation has confined its lending to long-term mortgage loans for the construction of buildings and equipment and has left the intermediate and short-term loan field to the banks. While long-term credit has generally been available to qualified farmers, the banks have not provided adequate service in intermediate and short-term credit. This, of course, is the most important type of credit required by egg producers since a very high proportion of their credit needs is for operating expenses.

The reasons for the inadequate service provided by banks are quite complex and probably not well understood.

In a study of the farm credit system in 1965, the Canadian Federation of Agriculture[12] found that some important problems were the tendency of banks to want too much security in connection with farm loans, the tendency of banks to reduce lending in periods of tight money, the necessity for referring loan applications over certain amounts to head offices and a general lack of interest of banks in farm lending compared with lending to larger business. Given the highly specialized requirements of farm lending, chartered banks are generally more willing to supply credit to large supply companies for financing egg production than to many individual small farmers; in the past banks have been unable or unwilling to provide specialized technical assistance in farm lending, and this function has been assumed by supply companies.

These deficiencies in the system for providing short-term credit must be corrected if, and I consider this desirable, the growth of independent owner-operated egg farms is to be encouraged. There appear to be two alternatives in this respect:

a) encourage public agencies such as the Farm Credit Corporation to enter the short-term loan field;

b) provide a system of incentives or guarantees to chartered banks to encourage them to be more aggressive in farm lending.

The Farm Credit Corporation has the advantage of specialists who are skilled and experienced in farm lending but a major involvement in short-term credit would require a massive expansion in the operations of this agency. The chartered banks have the advantage of having many branches in agricultural areas and consequently more direct access to farmers.

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[12] Canadian Federation of Agriculture. Farm Credit Study and Statement of Policy, Ottawa, August 1965.

A system of guarantees could be provided by the provincial government to banks on farm loans. Credit counselling services could be provided by the Ontario government, the Farm Credit Corporation or the banks themselves. Government guarantees to farm lenders have worked quite well in several European countries. In fact, highly successful systems operate in Holland and Great Britain where farmers themselves have set up a guarantee fund to facilitate their obtaining credit from commercial agencies at favourable interest rates. If government guarantees are successful in encouraging banks to service farmers' lending requirements, government guarantees should eventually be replaced by a guarantee program operated by egg producers.

(5) Improve and standardize the terms of contracts between farmers and supply companies.

Although long-term solutions to the problem of financing and control of eggs are critical to the health of the industry, it is unreasonable to expect that these changes can be brought about quickly. Many producers and supply companies will continue to enter into contract agreements over the next several years. In this respect, there would be great value in simplifying and standardizing the terms of contracts and perhaps providing a standard contract form so that the farmer would have some basis for evaluating his position. Samples of contracts received during the Inquiry indicates that there is a great deal of variation in contract terms. Some contracts are written in highly technical legal terms which make them difficult for farmers to understand.

SUPPLY MANAGEMENT

The objective of an effective production planning program is to plan production of egg producers in an area in such a way that the supply can be marketed at prices which will provide all efficient producers with a reasonable level of income on a regular basis. If the marketing system functions efficiently, effective production planning makes available to consumers a regular supply of eggs at the lowest price which they can reasonably expect.

The most fundamental choice is that between the present arrangement where all individuals who can influence the overall supply including breeders, hatcheries, feed companies and egg producers make production plans either individually or at best in small, loosely organized groups and methods which with legislative authority impose restraints on some or all individuals' planning scope in order to attain certain overall objectives.

The evidence that has been presented during the course of this Inquiry has compelled me to the conclusion that the traditional methods of production planning are no longer adequate and that some form of restraint is unavoidable if egg producers' legitimate income objectives are to be ensured in the future. This decision was not an easy one to make. I commenced this assignment as a strong believer in 'free enterprise', and resisted coming to this conclusion until I was quite satisfied by the evidence that some form of restraint was required.

Three alternative methods of regulating the supply of eggs were proposed during the course of the Inquiry:

(1) Controls on chick hatchings;

(2) Mandatory fowl slaughter;

(3) Marketing or sales quotas.

Controls on Chick Hatchings

It was suggested at the hearings that controls on chick hatchings would be a simple method of controlling egg production. A cursory evaluation of this method leads to the conclusion that this is not a practical alternative. The main reasons are:

(1) Controls placed on hatch in Ontario are not sufficient since chicks can be imported from other provinces and countries;

(2) There is no legislation in existence in Ontario or other provinces under which such a plan could be instituted;

(3) Even if control over chick hatchings could be instituted, it would not be effective in controlling egg production, unless producers were prevented from 're-cycling' their hens by means of force-moulting;

(4) To the extent that controls on chick hatchings might be effective in improving egg prices, part of the benefits would not be realized by producers because this would result in higher prices of chicks and pullets and would mainly benefit the hatcheries.

Fowl Slaughter Programs

Egg producers in the United States who have experienced similar income problems over the last year have been developing a compulsory fowl slaughter program, which has been drafted into a bill, the 'Egg Industry Adjustment Act', now before the U.S. Senate. This bill provides for the establishment of an Egg Industry Adjustment Board, appointed by the Secretary of Agriculture following an affirmative producer vote, which can recommend a mandatory percentage cut-back whenever the seasonally adjusted average farm price received for eggs is less than the average production cost for at least three consecutive thirty-day periods.

A referendum on the bill requires approval by two-thirds in volume (number of hens) or number of producers with at least 1,000 hens. For voting purposes in the case of contract production, half the flock would be attributed to the owner and half to the producer in charge of it. The first 15,000 hens in any flock would be exempt from the cut-back. Contractors would be required to apportion any reduction equally among their contract producers. Slaughter of hens would be required at such times that no undue interference with the orderly marketing of slaughtered fowl would result.[13]

Two directors of the Ontario Egg and Fowl Producers' Marketing Board, who during the hearings had been strongly critical of marketing quotas, presented a supplementary brief to the Inquiry dated March 13, 1972 in which a program along these lines was proposed. A compulsory fowl slaughter program was advanced as being much superior to a mandatory quota program.

In essence the proposal is that the Ontario government give the Egg Board authority to order a compulsory flock cut-back whenever the price falls below the cost of production for a given number of months. This program might be implemented on a two-year trial basis without a producer vote if 'all segments concurred'.

The cut-back could be a graduated percentage, based on the size of each producer's flock on a given date. The following example was provided to illustrate this approach:

> Suppose a producer had a flock of 10,000 hens on January 1, 1971, the base period. On the compulsory flock cut-back date, say April 1, 1972:

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[13] Feedstuffs, March 13, 1972. Volume 44, No. 11, Miller Publishing Co., Minneapolis, Minnesota, p 2.

i) if this producer had 15,000 hens, his cut-back rate would be 25 percent;

ii) if this producer had 10,000 hens, his cut-back rate would be 15 percent;

iii) if this producer had 7,000 hens, his cut-back rate would be 7 percent.

On the basis of this example, it was concluded that producers who caused the overexpansion would suffer the worst under such a plan.

It is suggested that such a plan could be implemented 'almost immediately', not needing a 'six to eight-month delay necessary for correction as in imposing quotas'. Other benefits of such a compulsory flock cut-back mentioned by the two directors were:

a) new entry to egg production at any time for anyone with no restriction;

b) opportunities for expansion in production in good times available to all producers with no restriction;

c) no quota value;

d) the 'inefficient houses and buildings which have now been registered and have created the over-registration of four million hens in Ontario will never be filled (they will be filled if quotas are instituted)';

e) since smaller producers would be exempted, only 'the larger operators would be affected and only when they should reduce their flock sizes anyway on an intermittent basis';

f) no administration cost except to conduct the periodice cut-back programs;

g) no patronage;

h) this program 'will show the responsible action necessary to get our (Ontario) producers federal aid, yet not tie their hands and make them easy prey for the other provinces or countries'.

It is difficult at this stage to assess the feasibility of this approach, since few of the practical problems related to converting an idea into a workable program have been dealt with. To make an evaluation, it has been necessary to anticipate to a large extent the techniques that are likely to be advocated.

Mandatory flock cut-back programs are not likely to solve to a satisfactory degree the problems experienced by egg producers in Ontario, either soon or permanently. The following major shortcomings are briefly mentioned.

(1) A mandatory flock slaughter program cannot be instituted quickly for several reasons:

a) To be effective at all, it would have to be applied in all the major egg producing provinces. There is at present no legislation which would authorize such a program in any of the provinces, including Ontario. The legislature in each province would have to pass either amendments to existing Farm Products Marketing Acts or completely new acts.

b) To operate the program effectively and fairly, all producers would have to be registered and each producer would have to declare his 'basic flock' in the base period.

This clearly cannot be some arbitrarily selected day such as January 1, 1971 unless the agency administrating the program is prepared to set up time-consuming appeal procedures to deal with the many blatant injustices inherent in this approach.

c) Further delays would result if the legislation under which the program would operate required a producer vote before the program could be instituted, such as is the case in the proposed United States legislation.

(2) The mandatory flock slaughter program, if effective, is likely to have many of the same drawbacks that a quota marketing program has. Particularly when loosely organized, scope for over-registration, patronage and outright evasion of or non-compliance with regulations of the program could be much more serious in a periodic flock cut-back program.

(3) A program of periodic mandatory flock cut-back is not likely to be effective in improving producer's income substantially.

A basic flaw is that the program does not come into effect until some time after the oversupply problem has been developing, as reflected in low prices over a period of several months. It would take at least several more months before a cut-back program could be put into effect. In addition, the cut-back cannot be severe and must be spread out over a considerable number of months, in order to avoid over-taxing fowl processing facilities and to minimize the depressing effect on spent fowl prices that the program will have. Prices could stay at depressed levels for up to six months before a substantial improvement would result.

In order to be effective in reducing the total flock, the program must regulate the introduction of ready-to-lay pullets to the flock by new as well as existing producers while the fowl cut-back program is underway. Up to this time, no one has tackled the difficult problem of what to do with the chicks and pullets which are already 'in the pipeline' when the mandatory cut-back is introduced, and will reach laying age while cut-backs are being made. Evidently, these pullets will have to be added to the flock as they reach laying age. Not only will this make it necessary to increase the cut-back rate, but there are several additional complications. Will an existing producer who purchases these pullets face a different rate of cut-back on his old flock? Will a producer who raises replacement pullets for his own laying operation have to sell some or all of these pullets? It is clear that depending on the answers to these questions the value of started pullets will differ quite widely, and normal arrangement for started pullets could be seriously interrupted.

These problems are caused to a large extent by the temporary nature of mandatory flock cut-back programs. Rather than providing a solution, this program particularly if kept 'simple and easily administered' could result in unacceptably low prices occurring at more frequent intervals. The reason for this is that many producers will seek and find ways of maximizing gains from, while minimizing their contribution to, the program. It is impossible to indicate at this time how this will be done, since few details of such plans have been provided. There is no doubt, however, that periods of seriously depressed prices can be anticipated with sufficient confidence for up to several years in advance. Producers who wish to do so can establish a high base before a cut-back.

The larger producers with three or more flocks of different ages can also plan operations in such a way that when the cut-back goes into effect, their cut-backs consist of an old, low-yielding flock which would have been disposed of at that time, or even sooner, if no program had been in effect. If the program contains a high cut-back exception clause, such as the 15,000-hen exemption in the United States, new producers of that size will be encouraged by the program to enter egg production. For these reasons, a temporary fowl cut-back program is not likely to improve egg prices substantially or for an extended period of time.

Marketing Quotas

Another technique for planning supply is the use of marketing or sales quotas. Under this method, all producers in an area are members of a marketing board which determines the total quantity to be marketed by the group from time to time, and allocates to each producer a share of this total quantity.

The most significant development in the marketing system of poultry meats and eggs in Canada during the 1960's has been the introduction of such marketing boards with marketing quota programs. All provinces have enacted legislation enabling producers of these products, following a specified favourable vote, to organize themselves into marketing boards which are granted the authority to regulate supply and prices.

There is no doubt that according to many the introduction of marketing boards violates what are believed to be fundamental principles of our society. Marketing boards have developed despite fierce opposition from producers and firms closely involved in agriculture.

Although in principle hostile to any infringement on their freedom of action, producers of poultry meats and eggs have voted into existence some twenty marketing boards, in most cases granting these boards authority to infringe on their independence to market and price these products. This must be accepted as strong evidence that there was widespread dissatisfaction with the way the old system was operating.

It is ironic that Ontario egg producers, who were the first to attempt control by organizing a marketing board in 1953, are the only group in Canada without marketing quota powers. Ontario egg producers at this stage clearly are caught up in a profound re-organization of the egg industry in Canada. They can participate and protect their interest in a meaningful way only by adopting a marketing quota program and by participating with boards presently operating in all other provinces, in a National Egg Marketing Agency under the authority of the Farm Products Marketing Agencies Act recently passed by the Parliament of Canada.

For this reason I recommend that the Ontario Egg and Fowl Producers' Marketing Board be provided with the necessary powers to develop a marketing program with sales quotas as soon as possible. I see no reason for recommending that this be subject to a favourable expression of opinion by producers, since at this stage Ontario egg producers no longer have any meaningful choice in this matter. Some have argued that many of the problems experienced by producers in Ontario have been caused by and are the unavoidable consequences of the introduction of sales quota programs in other provinces. This is a gross exaggeration as it fails to take into account the serious problems existing in the United States where this has not been a factor.

It is admitted that the unco-ordinated way in which marketing quota programs have been developed in the various provinces has been a contributing factor. This is difficult to avoid, considering the federal-provincial distribution of powers and the time involved in getting producers to reach a consensus and in getting a marketing quota program past its initial implementation stage.

The plan I am recommending will be much more successful if co-ordinated with marketing plans in effect in other provinces. This may be done under the provisions of the Farm Products Marketing Agencies Act. It is quite obvious, even at this stage, that this legislation can have a profound impact on Ontario agriculture in future years.
In view of the complex and basic issues on which agreements will have to be negotiated with other provinces, I recommend that the Minister of Agriculture and Food in Ontario initiate discussions and negotiations with representatives of other provinces and with the recently appointed National Farm Products' Marketing Council. The main objectives would be to reach agreement on the ground rules for allocation of quotas to each province, quota transfer and interprovincial trade practices.
In addition, agreement could be reached on the nature and extent of necessary changes in provincial marketing legislation and marketing plan regulations. These changes may be required to ensure that boards in all provinces operate marketing plans with consistent objectives.

In recent years, a large proportion of Ontario egg producers have come to accept a marketing quota program as a necessary restriction on their independence. It is perhaps significant that few of the most persistent opponents to a marketing quota program are in a position where they depend on egg production for a major share of their income.

There are many producers who, while realizing that a compulsory sales quota program may be necessary, have serious misgivings about possibly undesirable features. Most of their criticism is related to techniques used for original allocation of quotas and for transfer of quotas in subsequent years. It is important to discuss these issues.

Allocation of Initial Quota

There are two practical methods for allocating quotas initially:

(1) Using production or marketings in a specified quota-setting period in the recent past as a base;

(2) Using present production capacity as a base.

Each of these methods has certain advantages and shortcomings; neither is clearly superior. Using recent marketings has the advantage that it indicates actual contributions to egg supply by each producer, but would be unfair to those who erected new facilities recently or to those whose marketings during this quota-setting period for a variety of good reasons were below normal.

Basing the initial quota allocation on present production capacity has the advantage that it reflects investments in fixed assets, but difficulties arise in connection with measuring adequacy and capacity in the case of egg production where facilities that differ widely in capacity are utilized. There is the additional difficulty in connection with facilities, whether adequate or not, which have not been used for several years. Finally, this method discriminates against superior flock managers who regularly obtain an above average rate of egg production per hen capacity.

To reach a decision on this issue, it is necessary to keep in mind that the objective of the initial quota allocation is to establish a basis for distributing the benefits of the marketing program equitably among producers.

The method used must ensure that no producer can obtain a quota which is far in excess of his actual participation in the industry, whether based on sales or facilities.

For this reason, the best approach in connection with initial allocation of quotas would appear to be to use a combination of both sales and production facilities. By obtaining estimates for both indicators from a large number of producers, relationships between production facilities of various types and egg sales could be determined. These could be used to make adjustments in those cases where one of the measures is evidently out of line or not available. In addition, gross misrepresentation should be deterred by use of a severe penalty. Finally, an appeal system will be necessary to deal with those who feel unfairly treated in the initial quota allocation.

The involvement of 'small' egg producers in a marketing quota program was one of the issues that brought about the request for this Inquiry. Many conflicting opinions were expressed on this subject at the hearings. I have come to the conclusion that these producers should not be involved. I recommend that producers with fewer than 500 hens should not be required to register and be excluded from the sales quota program.

I may say further that a number of persons were criticized for expanding their facilities after it became known in 1968 that a vote was to be taken. It was obvious (and in a number of cases admitted) that the expansions were undertaken in order to obtain greater quotas if the plan were approved, although some of the persons concerned may very well have been anticipating the dramatic rise in price, which occurred later in the year. There was nothing reprehensible about the action of those who expanded.

The solution to the 'quota hunger' problem is to have a marketing plan instituted in a reasonable period of time after it is first proposed. I recommend that the capacity of egg production facilities in operation on September 19, 1971, the date of the Order-in-Council appointing me as a Commissioner, be considered as a basis in the initial allocation of quota.

Transfer of Quota

Issues related to methods used for transferring sales quotas among producers are unquestionably most controversial. There are basically four different methods:

I Quotas attached to and saleable only with poultry housing facilities;

II Quotas directly saleable in whole or in part without sale of facilities;

III Quotas non-saleable, but with the use of quotas being allocated among producers by the marketing board or other agency;

IV Quotas directly saleable by and with revenue accruing to the marketing board or other agency.

Methods I, II and IV involve the sale of quota rights. Sales quota programs will improve prices and producer incomes by managing the volume of eggs offered for sale. Since quota rights are necessary in order to increase egg prices, these quota rights may acquire a value. The capital value of quotas will be high if egg production under the program yields returns that are substantially higher than other production alternatives.

The capitalization of benefits of supply management programs into quota rights when sold has the following undesirable effects.

(1) The initial holders of quota rights will obtain unearned capital gains when quotas are sold.

It has been suggested that the capital gain has been earned because for years the initial quota holders have had low income or even losses under the existing system. This argument would be more defensible if the amount of capital gain realized reflected 'length of service' of initial quota holders, which it clearly does not do.

(2) New entrants to the industry and producers wishing to expand face three undesirable consequences:

a) the capital value of quotas creates a barrier to entry by increasing the amount of capital necessary to engage in egg production;

b) the capital value of quotas increases egg production cost in the form of interest charges on the amount invested in quotas;

c) if the money to purchase quotas has to be borrowed, income available to meet family living expenses is reduced while repayments are made.

If quotas are attached to and transferable only with facilities (Method I), an additional undesirable feature is that adjustments in size and location of egg production units are seriously restricted. While capitalization is less apparent when attached to saleable assets, the quota value is nevertheless reflected in the higher price that these assets command. For this reason, many producers erroneously believe that they can realize a higher total price when selling quotas with facilities compared to selling quotas and facilities separately. This may very well prove not to be the case, because persons interested only in obtaining quota would not be in the market.

Transfer of quotas with facilities is undoubtedly the least desirable method of transfer. Many marketing boards with sales quota programs have changed their quota transfer policies, and while they continue to allow this method of transfer, they also permit the sale of the quota alone (Method II);

although in the latter case the seller is required to pay a percentage of the price to the board. This practice will clearly discourage producers from selling quota without facilities. It will also tend to increase the market value of quota in either form.

Any system which results in quota rights taking on a value must be regarded as having serious drawbacks. It is, however, difficult to estimate the magnitude of this problem because it is unlikely that more than a small proportion of the quota will change hands in any year. Nevertheless once this process is started, it is difficult to halt. An example of its impact on an individual producer may be given. Taking a quota value of $2.00 per hen capacity, which was suggested at the hearings as a rather conservative estimate, a producer selling a quota of 100,000 hens would realize a capital gain of $200,000 from the sale of his quota. A producer buying this quota would have to finance the purchase of this quota, and if capital were borrowed at eight percent, the interest charges would increase production cost about one cent per dozen, or $17,000 per year. These are very significant figures and it is important to consider alternative methods of quota transfer that might avoid or minimize these problems.

One alternative which has been studied in some detail was transfer of quota rights without sale (Method III). In most discussions of quota transfer techniques, this method tends to be dismissed as impractical on the ground that it would be wide open to favouritism and corruption.[14] This is rather extraordinary since administrative selection techniques are not novel, but are in fact widely used in society with apparently reasonable results.

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[14] See for example: Report of the Federal Task Force on Agriculture, 1969. Canadian Agriculture in the Seventies. Queen's Printer, Ottawa, p 318.

The initial quota of course is allocated on an administrative basis.[15] Administrative allocation of of quotas is becoming a more realistic and acceptable alternative in recent years, since governments are no longer satisfied that the economic system can ensure a satisfactory standard of performance, without the use of more continuous administrative restraints and guidelines. Examples include such areas as land use, income distribution and regional development. This is also reflected in the regulations of other poultry meat and egg marketing boards operating in Canada, all of which now have provisions designed to encourage distribution of quota in such a way that a larger number of efficient producers can earn a reasonable income from egg production. Interested small and medium-scale producers are encouraged to expand by giving them preference. A limit is imposed on the amount of quota which any one person or firm can hold. It is evident that in these cases quota is allocated by administratave means as well.

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[15] It seems rather naive to suggest that initial quota allocation be done by auction, as has been suggested by the Federal Task Force on Agriculture (Ibid, p 318). Who would be allowed to bid? It evidently would have to be arbitrarily restricted to present producers. After all, the objective is that each of these producers be allocated with a quota which reflects his degree of participation in the industry. It surely is not to sell quota to the highest bidder. Those who favour auctioning assume that the most efficient producers will be the highest bidders, although no evidence is ever provided that this will be the case. About all that can be reasonably said about high bidders is that they have high expectations or few alternatives to egg production and that they have the resources to finance these quota purchases. It is not at all evident that these high bidders are any more efficient than some other producers.

There is no doubt that a system of administrative transfer of quotas would greatly reduce if not eliminate capitalization of benefits. Quotas would remain the property of the agency which would allocate to producers the right to use quota. Producers discontinuing or reducing egg production would return their quota rights to the agency. A producer wishing to enter or expand egg production would apply and available quota rights would be allocated among applicants, using guidelines with respect to minimum and maximum quota, size of producer and location. If there were too many applications in relation to available supply of quota in each class, allocation could be done by drawing lots. Those whose names are not drawn would have priority next time a quota became available. A seller of egg production facilities could sell only to persons who already had been provided with quota by the board. This buyer could build new facilities as an alternative to purchasing existing facilities if the price demanded was too high. This would eliminate quota valuation when facilities were being sold.

The change-over from present practices to a system of quota transfer without sale is not as revolutionary as is often suggested, because administrative techniques are already used for the initial allocation and for the allocation of quotas which become available to the board. In any case, quota transfer without sale should apply to the case of a disposition of egg production facilities within the immediate family; these situations would account for a high proportion of quota transfers.

Producer objection to the non-saleable quota transfer method may be attributed to the fact that as initial quota holders they might otherwise realize very substantial capital gains from the sale of quota. It would be unrealistic to expect many to pass up this opportunity. It is significant that younger operators and generally those interested in expanding their operation are much less in favour of negotiable quotas. This conflict in interest between the 'young' and the 'old' accounts for much of the serious disagreements among producers in connection with marketing plans. I seriously question the right of producers, the initial quota holders, to have the dominant voice in deciding on this issue. They have an obvious interest in negotiable quotas which can have seriously undesirable effects on succeeding generations of producers who are not effectively represented in the decision-making process.

Present methods of developing marketing plans put directors of marketing boards in a privileged position, since they can anticipate and influence decisions. This inevitably creates distrust on the part of producers, particularly when real and serious conflicts of interest exist. Testimony at the hearings provided abundant evidence of the distrust and accusions that have been generated in this way.

In order to minimize these problems, several changes in procedure would have to be introduced.

(1) Appropriate officials of the Ontario Department of Agriculture and Food, in consultation with representatives of agricultural organizations and local marketing boards, should develop and agree to a number of guidelines that would assist in developing marketing plans more speedily and more harmoniously. This would ensure that all marketing plans would be directed to similar and consistent goals.

Topics that could be included are:

a) definition of a 'producer' for purposes of registration and voting;

b) definition of a 'producer', 'owner', 'operator', 'owner-operator', for purposes of quota allocation;

c) development of common objectives and techniques for encouraging adjustments in the size of flocks, efficiency and for restoring decision-making functions to the producer;

d) development of a common approach for all poultry and egg marketing boards in connection with participation in national marketing agencies under the recently passed National Farm Products Marketing Agencies Act.

(2) Serious consideration should be given to having the responsibility for initially allocating and transferring quota assumed by the Farm Products Marketing Board, or by a completely independent agency set up for this purpose. This board would, in effect, administer quota policies determined in the guidelines. With the responsibility for quota allocation and transfer removed, the marketing boards could concentrate their efforts on supply management, price determination and market development.

A final alternative which may be considered more acceptable than non-saleable quotas is a plan whereby quotas would be sold by the marketing board agency in charge of quotas (Method IV). Under this plan, the initial quota would be allocated as suggested previously.

For the transfer of quota in succeeding years, the agency would conduct auctions or sales by tender from time to time on a regional basis. A person wishing to enter egg production would have to apply to the agency, purchase a quota and then either purchase existing or erect new facilities. A person discontinuing egg production would return his quota to the agency.

The advantages of this method include:

(1) While quota would have to be purchased and would, therefore, increase financing requirements and production costs, the extent of capitalization of rights would be much less than under previously reviewed techniques of saleable quota transfer. The agency could influence prices paid for quota by controlling the frequency of auctions in relation to demand for quota by the number and size of lots offered, and by restricing the eligibility to purchase to certain classes of producers.

(2) Producers individually would not be able to realize capital gains from the sale of quota. Instead, revenue from the sale would go into a fund which could be used to finance projects to promote the interest of producers as a whole, such as market development, promotion, consumer attitude surveys and new product development.

In conclusion, the undesirable effects of Methods I and II has forced me to conclude that a thorough evaluation should be done of ways and means of reducing undesirable effects by changes in these methods, or by developing techniques along the lines proposed in Methods III and IV, which can no longer be dismissed out of hand.

EFFECTS OF SUPPLY MANAGEMENT ON PULLET GROWERS

Any program that influences the supply of shell eggs on the market will also have an important influence on Ontario pullet growers. Apart from the obvious effect that a reduction in the number of hens in laying flocks would mean a lower replacement pullet volume, the introduction of a supply management program may force far more serious adjustments on this segment of the egg industry. As indicated earlier, there are many forces operating to encouraging expansion in egg production, particularly those related to the provision of credit and contracts by supply companies. If egg production is curtailed or reduced through a supply management program, individuals and firms who would otherwise expand in egg production will look for other expansion opportunities and many of these may decide to grow their own replacement pullets instead of purchasing pullets from hatcheries or independent pullet growers. Another factor that would encourage this development is that many egg producers, particularly the larger ones, will have surplus barn space available if controls on egg marketings are introduced; larger egg producers will be able to use this space for pullet growing. These adjustments could have drastic effects on specialized pullet growers in Ontario, as pointed out by the Ontario Started Pullet Grower's Association in a brief submitted to the Inquiry and in subsequent discussions.

A related problem facing pullet producers is that in the past many have operated without firm purchase arrangements with commercial egg producers for their product. This seems to have been the case regardless of whether pullets are grown by hatcheries (through contract growers or in their own facilities), or by independent pullet producers. In periods of low prices commercial producers often decide to cancel previous commitments for pullets on very short notice as the pullets approach laying age.

Pullet producers are then forced to market their birds at very low prices or bring the birds into production themselves. The lack of firm contract arrangements for pullet supplies has forced many hatcheries and pullet producers to start chicks without firm commitments and take their chances on the open market.

This lack of sophistication in pullet supply arrangements is a major cause of variability in egg production and egg prices. Under a supply management plan, it would be necessary to estimate flock replacement requirements with much greater accuracy than at present.

I recognize that pullet producers have a legitimate concern about the efforts of an egg marketing plan on their industry and I have concluded that some means must be devised to protect their interests. First, pullets should be sold to commercial producers on firm contract arrangements that are binding to both seller and buyer. Producers should be required to contract for their pullet supplies a minimum of six months and preferably eight months in advance, and a deposit should be required upon signing a contract. Enforceable written contracts for flock replacements would make the position of the pullet producer much more secure and, equally important, would eliminate the speculative growing of pullets and allow hatcheries to estimate hatch requirements with much greater accuracy.

Second, steps should be taken to protect pullet producers' markets when an egg supply management program is introduced. There appear to be two alternatives in this respect:

(1) Prohibit producers who now purchase started pullets from growing their own replacements;

(2) Provide those pullet producers who lose their market for started pullets with an opportunity to become commercial egg producers.

The second approach is best because it would allow producers the flexibility of adjustment between egg production and pullet production. Pullet producers should be registered with the Egg Board, and an accurate inventory of their facilities should be made to estimate normal pullet production from these facilities. Individual egg producers who then began raising their own pullets would have their egg sales quotas reduced accordingly. Individual pullet producers who lost pullet sales as a consequence should receive egg sales quotas in proportion to the amount of pullet sales lost. The actual conversion rates of pullets to hens and vice versa could be established on the basis of relative barn space requirements.

At this stage it is impossible to be specific about the method of operation of this program. There are three problems with this approach that must be dealt with:

a) the opportunity to produce eggs should be given to existing pullet producers only, not to new entrants;

b) pullet producers who receive egg sales quotas must not be allowed to expand their pullet raising facilities at a later date;

c) the Egg Board must be informed about egg producers who decide to raise their own pullets instead of purchasing them.

Obviously there will be some major administrative problems to overcome in a program of this type. It is probably best to operate the program for a limited period of time - say five years - to assist pullet producers to make adjustments after the initial allocation period, and pullet producers should be allowed only one chance to receive egg sales quotas. After initial adjustments have been made the program should be discontinued.

MINIMUM PRICES

In order to realize the objectives of a marketing plan, it will be necessary to institute a system of minimum prices to producers on a weekly basis. This is necessary for the following reasons:

(1) Unless grading stations are confronted by a floor price, they will have little incentive to extract from consumers and return to producers a reasonable price for the quantity of eggs being offered for sale from time to time. They are primarily interested in obtaining a secure margin for their services and have a tendency to exert unnecessary downward pressure on prices from time to time. The minimum price will also reduce the day-to-day variation in price that apparently does not serve any useful purpose;

(2) The minimum price will ensure more equitable treatment of producers by preventing significant differences in prices paid by grading stations as occurs at present;

(3) Grading stations will be forced to become more efficient and more effective merchandizers of eggs, seeking the best possible markets for each grade and size since they will not be able to pass back to producers the consequences of unsatisfactory performance.

I am not in a position to make detailed recommendations with respect to pricing and other matters related to the day-to-day operation of a sales quota program. The Egg Board should inform itself fully of the many complex aspects of the present marketing system to ensure that procedures which will develop will be both workable and equitable. The experience gained by the Egg Board in British Columbia, which appears to have a reasonably well-functioning plan, should be helpful. Some of the basic aspects that must be included are briefly mentioned.

a) What is the basis for minimum prices to producers? It may be f.o.b. farm or grading station.

b) How is the cost of assembling and transporting eggs from farm to station determined? Who should bear this cost: producers, graders, or shared?

c) It will be necessary for the Egg Board to negotiate with grading stations a uniform schedule of price differentials related to the quantity of eggs shipped per pick-up to reflect differences in cost of assembling and grading as related to size of shipment. The Egg Board should seek factual information on this matter to provide the basis for an equitable discount schedule.

d) Rather than one minimum for the entire province, it may be necessary to set somewhat different minimum prices in different areas, at least in Northern and Eastern Ontario. This should be done in co-operation with marketing boards in other provinces, particularly those in Manitoba and Quebec, under the auspices of the national agency for eggs, which is presently being developed under the provisions of the Farm Products Marketing Agencies Act.

DEMAND EXPANSION

As has been indicated earlier, it is important for producers to become more actively involved in the marketing process. The Egg Board should develop a number of programs designed to encourage expansion in demand for eggs and egg products. Many of these programs for maximum effect will require the participation of egg marketing firms but the Egg Board can take the initiative.

It is not possible, and hardly within the terms of reference of this Inquiry, to spell out in detail the action that should be taken in this area. A few areas of interest may be indicated:

(1) In order to ensure that only eggs of acceptable quality reach consumers, the Board should continuously evaluate and where necessary encourage upgrading of facilities and practices for storing, transporting and displaying eggs from farm to retail;

(2) The Board, which is charged with the responsibility of disposing of surplus and over-quota eggs, should handle this in such a way that grading stations are encouraged to move into markets at minimum prices the largest possible quantity of eggs. Handling of surplus eggs should not be a profitable practice for grading stations;

(3) The Board should act as a clearing house for grading stations to facilitate the balancing of minor surpluses and shortages of both nest-run and graded eggs. A grading station which, over a period of time, regularly receives more eggs that it can market at the minimum price should be forced to reduce the volume of eggs handled accordingly or should bear most of the cost associated with extra handling involved in such cases;

(4) The Board should encourage the development of a viable egg processing industry in Ontario. This may be done in several ways:

a) disposal of surplus eggs should be done in such a way that prices of eggs for processing and of processed egg products are not depressed unnecessarily; surplus disposal programs should be closely co-ordinated with those of other provinces and with programs developed by the national agency;

b) the Board should encourage the location of an egg powder processing plant in Ontario, and assist the egg processing industry in obtaining reasonable protection from low-priced egg powder products if these are dumped into Canada; the United States government provided this protection for its processors about a year ago;

c) the Board could increase utilization of and prices obtained for eggs by encouraging new methods of processing in the province, such as mechanical peelers which could encourage utilization of boiled eggs in salads.

Date Due

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